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Financial services

Regulation

Banking

A case for proportionate regulation

The cost of compliance

November 2018

This paper has been commissioned by the Customer Owned Banking Association (COBA) on behalf of the customer owned banking sector, comprising mutual banks, credit unions and building societies with total assets in excess of $110 billion and more than 4 million customers.

Customer owned banking institutions are:

- ADIs, regulated and supervised by APRA
- AFS licensees regulated by ASIC
- credit licensees regulated by ASIC
- AML/CTF reporting entities, regulated by AUSTRAC.

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Foreword

Madeleine Mattera
National Head of Financial Services

Darren Scammell
Head of Financial Services – Victoria

The banking industry in Australia is facing substantial change and uncertainty with heightened scrutiny on conduct, competition and overall regulation. 2018 has been a particularly significant year, with the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (Royal Commission), the Productivity Commission Inquiry into Competition in the Australian Financial System (Productivity Commission), the Prudential Inquiry into the Commonwealth Banking of Australia (CBA Inquiry) and the associated media and public attention.

Regulators have also come under the microscope, with much focus on their lack of enforcement activity and real action against those institutions who are not operating in line with regulatory and legislative requirements and behaving in a manner which does not meet community expectations. The regulators reputation as a 'toothless tiger' has been laid bare throughout the Royal Commission with both APRA and ASIC receiving criticism for inaction.

The common view at this time is that the regulator reaction will be increased activity with focus on demonstrating that they can in fact, flex their muscles, take action and discipline the banking sector. Many entities contributing to this report commented that they were already seeing increased interaction with the regulators with an expectation that there is more to come.

Whilst some activity has started, the industry is awaiting the formal outcomes of the Royal Commission. Commissioner Hayne can make recommendations arising out of the inquiry and can refer matters to the relevant regulators but it will be interesting to see what the outcome of the recommendations may be. There are a number of questions to be answered such as: will there be additional regulation, will there be a change in the remit structure of the regulators, and will legislation change?

Commissioner Hayne has been considered in his approach for the possibility of additional regulation stating:

"Given the existing breadth and complexity of the regulation of the financial services industry, adding any new layer of law or regulation will add a new layer of compliance cost and complexity. That should not be done unless there is a clearly identified advantage."[1]

He acknowledges that the existing frameworks are complex and that although comprehensive, they have done little to protect consumers from the misconduct which was evidenced throughout the hearings.

As decision makers consider their formal response and reaction, they need to understand the broader impact on the entirety of the banking sector. In this report we have attributed a cost to compliance by talking to smaller and customer owned banking institutions about their current regulatory and compliance activities, and their expectations for increased regulation and compliance based on what has come out of the Royal Commission to date.

Our smaller and customer owned banking institutions already shoulder a larger share of regulation and compliance burden compared to their asset and actual size.

This is the first time data of this kind has been compiled for the Australian banking sector that looks beyond the Big 4 – and is essential reading for regulators and governing bodies looking to make industry wide changes to the financial services sector post Royal Commission.

1. Section 3.1 - https://financialservices.royalcommission.gov.au/Documents/interim-report/interim-report-volume-1.pdf

More than 4: the diversity of the Australian banking sector

At 30 June 2018, there were 143[2] Authorised Deposit Institutions (ADI) in Australia with 5,6093 branches across the country. This is a decrease from 148 the previous year and is an approximate 34% drop from more than a decade ago (September 2007), when there were 217 ADI's.

In recent years, smaller institutions have been consolidating to maintain scale, meet the increasing cost of complying with regulation and to stay competitive in the ever increasingly tough environment.

Of the current 143 ADIs, the Big 4[4] banks collectively account for approximately 58.8%[5] of the market share (based on total revenue) and around three quarters of assets.

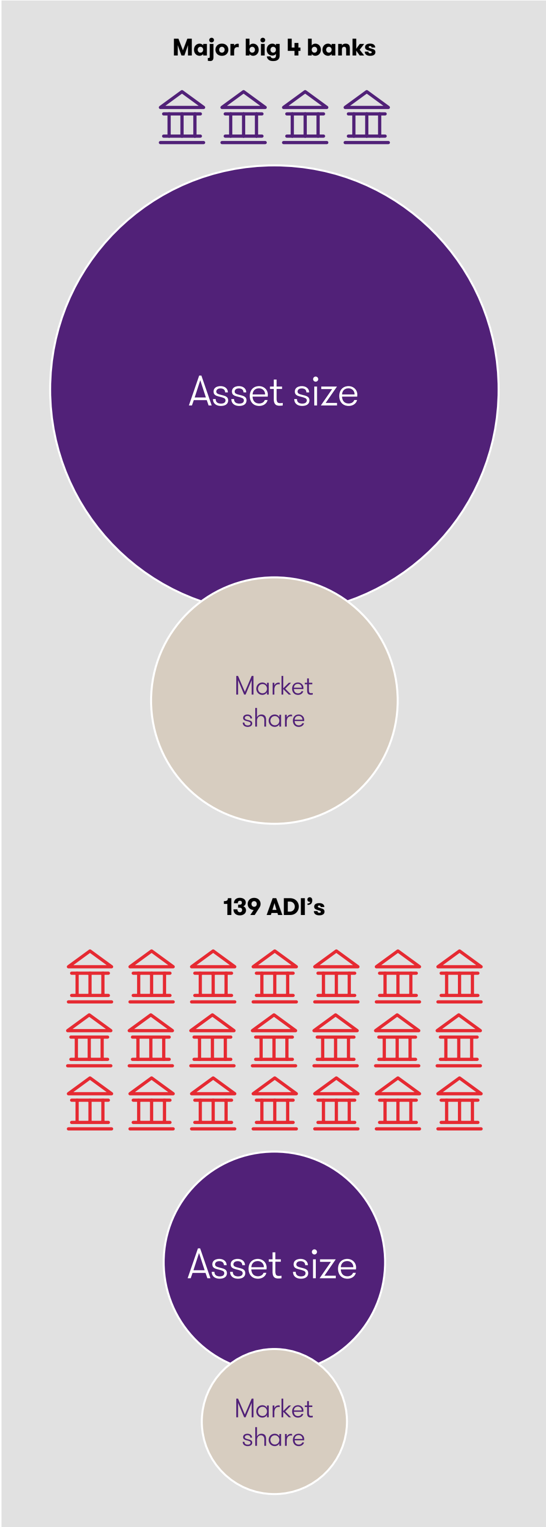
The Productivity Commission report stated: "The relative size of major banks is such that only if all other banks in Australia were to merge, would they be able to rival either of the biggest two — Westpac and the Commonwealth Bank."[6]

Forty-one percent (41.2%) of the market is made up of 139 other domestic banks, foreign subsidiary banks, branches of foreign banks, building societies, credit unions, and other ADI's. The size and complexity varies significantly, from entites with less than 20 employees to those with more than 1000. Business models, products, services, customers, geographic locations, branch presence all vary greatly, yet despite these vast differences, regulation is relatively consistent.

At June 2018 there were 71[7] mutual ADI's in Australia. This segment of the banking sector holds assets in excess of $113 billion and serving more than 4 million customers. It is collectively one of the most significant competitors to the Big 4.

A key differentiator for the mutuals, is that their objective is to provide service, quality and price for members rather than the delivery of profit to shareholders. Business strategies are often targeted at long term sustainability in contrast to the shorter term, shareholder return focus of listed entities.

The existence of customer owned institutions contributes significantly to the diversity of the sector due to a number of factors including scale, focus and presence. They provide Australian consumers with options other than the increasingly indistinguishable Big 4 and their sub-brands.



2. https://www.apra.gov.au/sites/default/files/documents/qadip_june_2018_full.pdf
3. APRA ADI Points of Presence - https://www.apra.gov.au/sites/default/files/documents/adipop_20180630_pdf_1.pdf
4. 'Big 4' refers to the Commonwealth Bank of Australia, Westpac Banking Corporation, National Australia Bank and Australia and New Zealand Banking Group
5. IBIS Word Industry Report: Finance in Australia, August 2018
6. Pg. 97 - https://www.pc.gov.au/inquiries/completed/financial-system/report/financial-system.pdf
7. https://www.apra.gov.au/sites/default/files/documents/qadip_june_2018_full.pdf

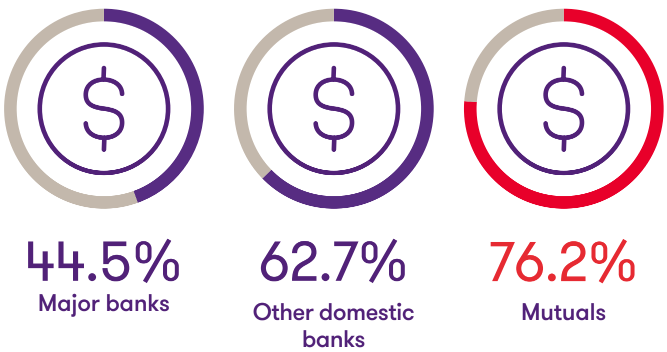
Benefits for the biggest

The regulatory compliance burden provides a competitive advantage to major banks against smaller entities as the associated fixed costs are more easily absorbed. The size of the Big 4 enables them to spread costs such as IT systems and infrastructure costs across a broader asset and revenue base.

Operational efficiency is a factor which indicates profitability of an institution and is commonly represented using the cost to income ratio. Simply, the lower the ratio the more profitable the organisation. The ratios are made up of various categories of operating costs including personnel, buildings, information technology, marketing and litigation. The Big 4 banks average cost to income ratio at 44.5% is significantly smaller than those of the other domestic banks (62.7%) and mutuals (76.2%).

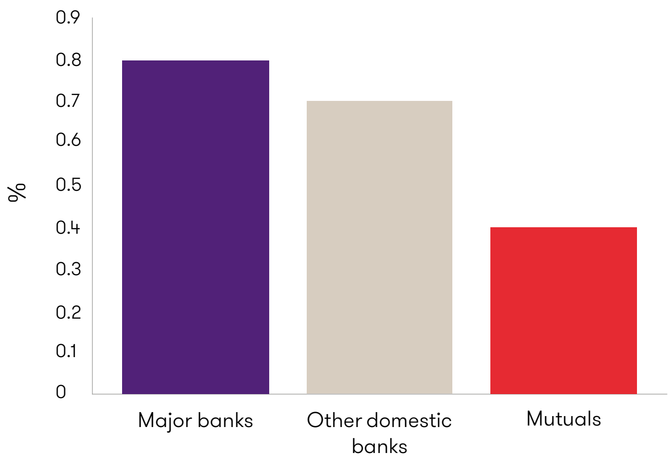
The Big 4 banks average cost to income ratio is significantly smaller than those of the other domestic banks and mutuals. This indicates, that despite clear differences in size, economies of scale work in favour for the majors.

Cost to income ratio



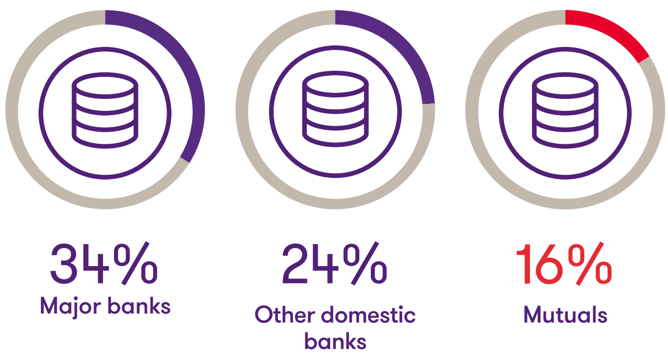
Return on Assets (ROA) measures how profitable a bank is relative to its total assets. The higher the ratio the greater the return on assets and the more profitable the bank.

Return on assets (after tax)



The comparison of the profit margins of the banks also illustrates the disparity between the majors and other banks. Profit margins equated to just over 34% average for the major banks, 24% for other domestic banks and down to 16% for the mutuals. This is reflective of the impact of fixed costs of doing business, which includes the costs associated with regulatory compliance.

Profit margin



Compliance in action

The cost of compliance is broadly defined as the costs associated with performing the various tasks required to comply with legislative and regulatory requirements.

These costs consist of elements such as the time taken and financial impacts related to elements such as resources, infrastructure, reporting, review and data.

The cost of compliance is steadily increasing with each additional regulation or requirement. The baseline cost of doing business and meeting the minimum requirements is not proportionate to the size and complexity of Australian entities and it seems as more regulation is added, the more the smaller entities will be 'squeezed' out. The implications of this are far reaching and will have a profound impact on Australian consumers.

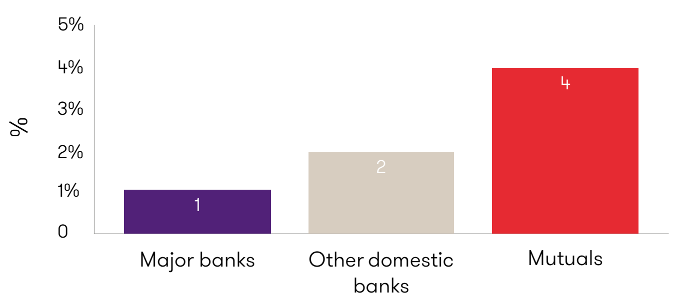
Time and resource

In order to appreciate the diversity of the sector we examined the makeup of the entities in terms a number of factors, including Full Time Employees (FTE). The variance demonstrates the diversity which exists just within the mutual sector, however, when overlaid with the average FTE for the Big 4 at 39,757[8] the difference in scale is startling.

From a pure business management perspective, the complexities of managing almost 40,000 people and the array of activities which they undertake are vastly different to an organisation with only 60 people.

Overall, compliance focussed staff made up on average, 3% of the total FTE within the entities surveyed. However, the data showed that the smaller the entity, the greater the percentage. This demonstrates that addressing compliance and regulatory requirements requires a level of staff which is not necessarily proportionate to the size of the entity.

% FTE working on compliance



8. Source – 2017 Annual Reports

In discussion with participants, particularly those outside of Sydney and Melbourne, there was concern regarding the availability and cost of suitably qualified and experienced staff. This has resulted in the increase in use of contractors and third parties to provide services such as technology, internal audit and risk and compliance advisory. The cost of these services is well above the cost of a locally sourced FTE and as such the use of third parties has a significant financial impact.

In addition to number of FTE, the associated personnel expenditure makes up a significant proportion of the overall cost of doing business. This is evident with average personnel expenses of the survey participants equating to 50% of operating expenses and around 20% of gross revenue.

Survey participants said

50%
of operating expenses goes towards FTE and associated personal expenditure

At a median level those surveyed pay $150k to their Chief Risk Officer (CRO) compared to $2.5m by the Big 4 banks. This equates to 1.66% of revenue for the mutuals but only 0.05% for the Big 4.

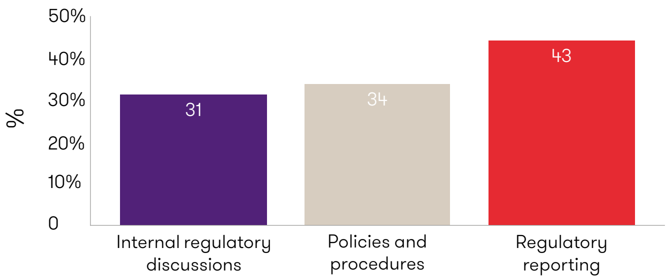
We asked participants how many hours per week compliance (2nd line) staff spent on three activities:

- preparing regulatory reporting;
- documenting and updating policies and procedures; and
- time spent on internal regulatory discussions.

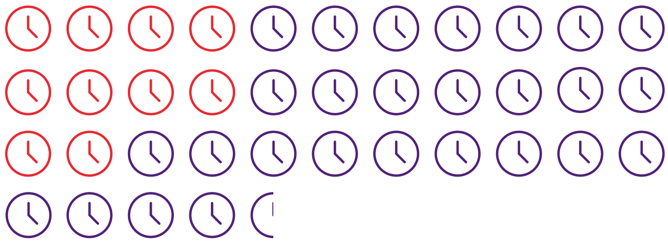
These areas were selected as they are key, when considering the impact of regulatory change and regulatory interaction.

A key point to note is that this excludes business as usual (BAU) activities such as compliance testing, review and monitoring, training and communication to staff, and identifying and researching regulatory change. Forty-three percent (43%) of respondents indicated that they spend more than one day per week on regulatory reports, 34% spend more than a day on policies and procedures and 31% indicated that they spend more than a day undertaking internal regulatory discussions.

Greater than 8 hours per week



24% of respondents said their organisation spent more than 10 hours per week (37.5 hour week) in regulatory reporting.

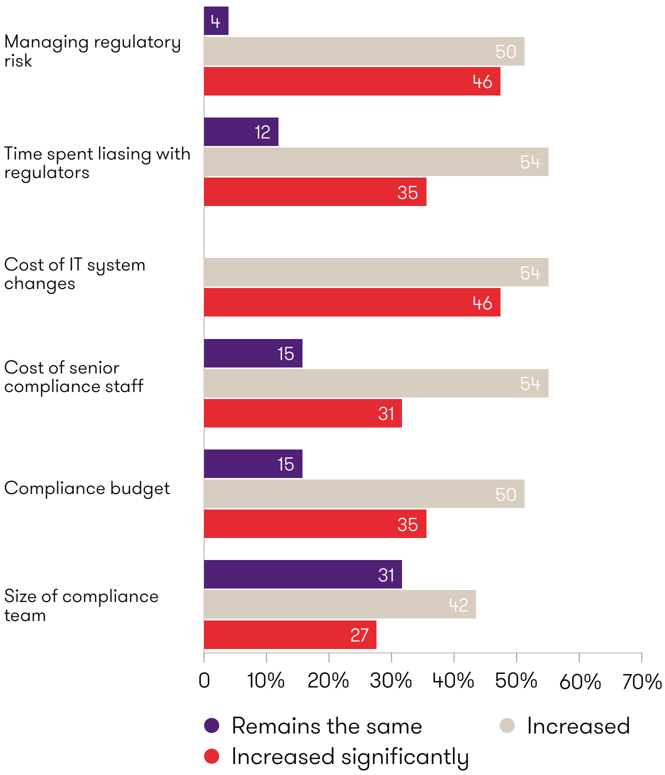


For smaller entities, with limited resources, the impact would be substantial. In many cases, additional resources will need to be employed, contractors engaged or resources moved from other areas to fulfil the requirements. Whether it is through reduced customer facing staff, less investment available for improvements to products and services, branch closures or less community investment – the customer will end up paying in some way.

Compliance and business priorities

We sought to understand how compliance and regulatory activities had affected participating organisations over the last 2 years and changes were implemented as a result. For the majority of participants we saw increases across the board.

The last 2 years



100% said that the cost of IT system changes had increased in the last 2 years.

96% agreed managing regulatory risk had increased in the last 2 years.

58% said the size of their compliance team had increased in the last 2 years.

85% said the cost of senior compliance staff had increased in the last 2 years.

It is apparent that the cost of IT change has been, and is set to continue to increase for ADI's. Investment in IT is required to meet regulatory reporting requirements, deliver services more efficiently and meet customer demand for internet and mobile banking platforms and payment systems. These platforms and systems often require ongoing additional funds, far beyond the cost of implementation, which need to be invested for maintenance, updates, security and the rollout out of new features. In addition to this, we must also factor in the anticipated implementation of CPS234 Information Security[9]. The ongoing requirements to comply with, and demonstrate a robust approach to IT and information security, layered upon the other regulatory changes considerably impacts the bottom line of the smaller entities.

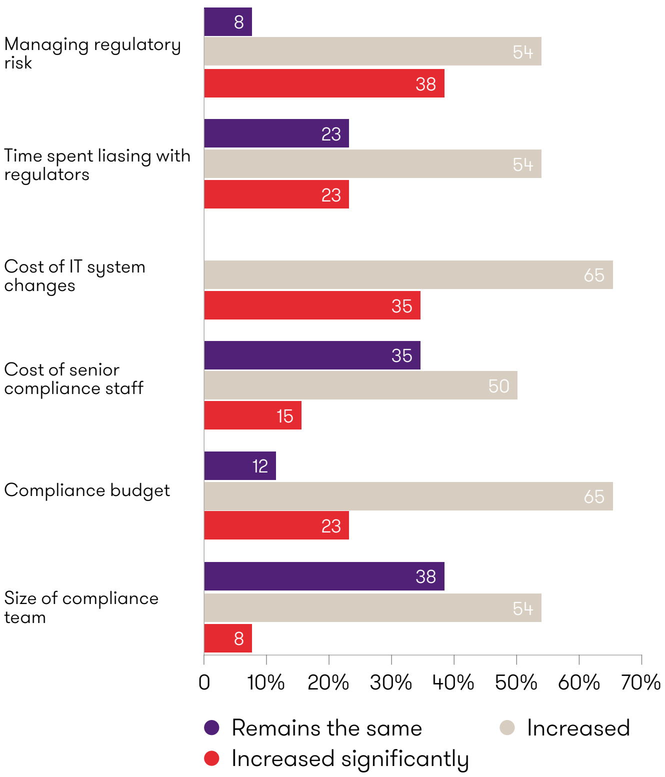
Recently, NAB announced plans to boost technology spending by $1.5 billion and adding 2,000 technology specialists[10]. This highlights the direction that the major banks are taking to addressing changes relating to IT.

9. https://www.apra.gov.au/sites/default/files/Draft-CPS-234.pdf
10. IBIS Word Industry Report: Finance in Australia, August 2018

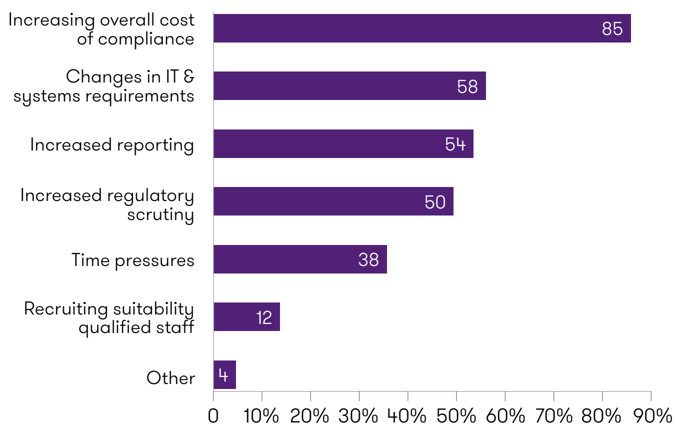
Looking out over the next 12 months participants indicated that further increases were expected, however, many changes had already been felt due to increased regulatory activity such as preparation for the Banking Executive Accountability Regime. This view is also underpinned by the expectations surrounding the outcomes of the Royal Commission.

We asked participants what the current key areas of concern were for their entities in relation to possible changes. Eighty-five percent (85%) of respondents indicated that a key concern for their entity was the overall increasing cost of compliance, 58% indicated changes in IT and system requirements and 54% were concerned increased reporting.

The next 12 months



Key areas of concern



Westpac have invested more than $800 million is systems upgrades, digital transformation and innovation. Additionally, strategic investments have been made into a number of companies, including fintech startups to harness the benefits of data and rapid technological change.[11]

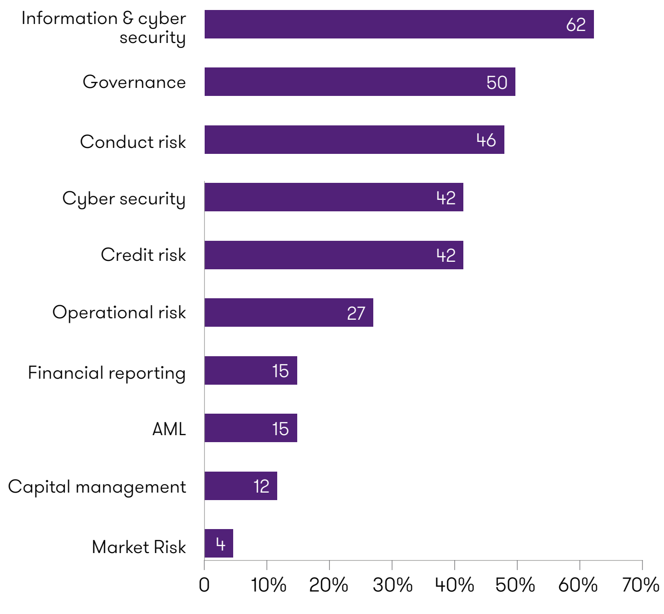
11. https://www.westpac.com.au/content/dam/public/wbc/documents/pdf/aw/ic/Final_Westpac_Group_2018_Full_Year_Results_Announcement.pdf

In terms of regulatory focus 62% of participants indicated that information and cyber security would be a key area of regulatory focus over the next 12 months. This may be indicative of the recent draft prudential standard CPS234 released earlier in 2017.

Fifty percent (50%) indicated that Governance would be key area of regulatory focus of the next 12 months as a result of the CBA Prudential Inquiry findings and the implementation of BEAR for smaller institutions on 1 July 2019.

Forty-six percent (46%) of participants felt that there would be an increased focus on conduct as a result of the Royal Commission. Some expressed concern regarding how the regulatory reaction might end in a regime which is disproportionate and may have unintended consequences for the very customers it is trying to protect.

Key areas of focus over the next 12 months



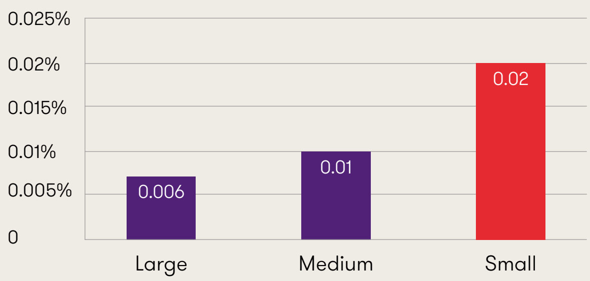
Case study

BEAR

Of the more recent changes and proposed changes, BEAR, was at front of mind for our participants, with the deadline to comply approaching. We asked how much they thought they would spend in total in preparation.

As the number of required accountability statements and the detail of the accountability maps increased with the size of the organisation, the expected cost of preparation for BEAR compliance increased. Small entities indicated they expected to spend up to $200k, medium up to $250k and large up to $300k. However, as the asset size of the entity grew, the amount expected to be spent decreased. This again illustrates economies of scale.

BEAR spend as a percentage of asset size



Aside from the cost of BEAR, the apparent 'layering' of regulation has left some questioning how regulation and legislation are considered from a holistic perspective when designed and implemented. The interaction with BEAR, the existing prudential framework (particularly CPS510 Governance and CPS520 Fit & Proper) and ASIC's approach to 'responsible managers' could have been an opportunity for a unified and simplified approach, however the new legislation has been 'layered' over the existing. In discussions with participants, there was a view that there was a lack of consideration of existing requirements when new regulation was passed.

Adding to the C-suite

Following BEAR, the Productivity Commission's recommendation regarding the appointment of a Principal Integrity Officer (PIO) was of concern to the majority of participants.

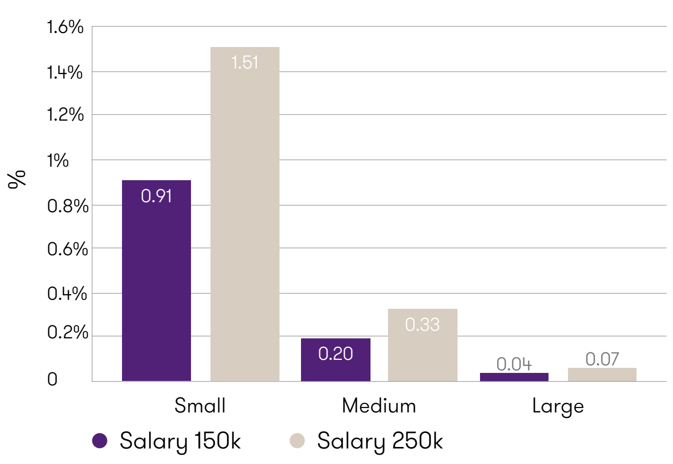
The proposed requirement that all ADI's, regardless of size, appoint a PIO with independent status within the entity and has direct reporting line to its Board was seen as completely unnecessary and disproportionate by most.

For the major banks with an average of 39,757[12] full time employees, the appointment of another executive may not have a major impact but for smaller ADI's, some with as little as 19 employees, this can have significant implications in terms of additional cost. Furthermore, sourcing an individual with the skills required, especially in regional areas, may be difficult.

The PIO proposal is a good example of how the government could apply a proportional approach in order to ensure smaller institutions are not unduly effected by the obligation. Thought should be given to excluding smaller institutions with no demonstrable history of integrity issues altogether, or extending the responsibilities of current positions, such as the Head of Internal Audit who has an existing requirement of independence.

We asked participants what they thought the salary band of the PIO would be within their entities. Twenty-three percent (23%) of respondents thought the PIO salary would be commensurate with that of the CRO at around $150k and 8% felt the salary would be over 250K.

PIO salary as % of average revenue



The previous chart is based on the average revenue across the survey participant's categories. It should be noted that for the smallest participating entity, a $150k salary would equate to almost 8% of revenue, whilst a $250k salary would equate to 13%.

For the largest participating entity, a $150k salary would equate to 0.03% and 0.05% for the $250k salary.

In contrast, if the PIO salary is commensurate with the CRO salary at the Big 4 banks ($2.5m) it would equate to just 0.007% of the average Big 4 revenue.

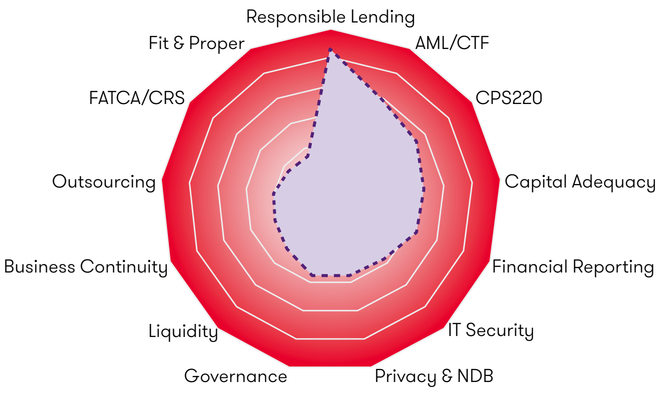
Compliance burden

We asked participating entities to rank a number of regulatory areas in order of how burdensome it was to comply.

Responsible lending was ranked the highest with many indicating the increasing depth of information required to lend was becoming onerous. Concern was expressed that if lending requirements were to become more stringent, as much as the impact will be felt by smaller entities, it will also be felt by consumers. Many of whom will be pushed towards less regulated lenders.

The issue of consumers seeking credit from less regulated lenders was highlighted when the 10% investor cap was introduced by APRA in 2017. As ADI's were declining investor loans to stay beneath the cap, alternative sources of funding such as shadow banks were sought by consumers.

Relative burden of compliance requirements



12. Employee numbers taken from the 2017 Annual Reports of CBA, NAB, Westpac & ANZ

Unintended consequence

Regulators and policy makers focus on financial stability and protecting consumers but despite good intentions, regulation can often result in unintended consequences with far reaching impacts across society.

Competition

Effective competition in the financial system should drive innovation in product offerings, improvements in product quality and variety, greater efficiency and lower prices, for the benefit of business and consumers.

The Productivity Commission found that, "regulators largely have the tools to support a competitive market place but their focus is tilted towards the stability of the system, with regulatory regimes that are indifferent to, or actively discourage, innovation and competition."[13]

While consolidation and merger activity enables smaller ADI's to leverage a larger customer base in order to achieve economies of scale and improve their competitiveness, it ultimately results in less diversity in the banking market. If ongoing consolidation of smaller ADI's continues, consumers will inevitably feel the effects of reduced consumer choice and less personalised, community-based services as product offerings and services become more homogenised.

The De Nederlandsche Bank (DNB) outlined in a report in May 2018[14] that homogeneity in the sector was of increasing concern. As the banks become more alike, they are exposed to the same types of risks which may have an impact on financial stability in the event of a significant event.

"It is acknowledged that sound prudential regulation is required in F.I.'s, however since the GFC just over 10 years ago regulation has severely multiplied to the extent that it has completely unhinged and balance between large, medium and small institutions to the point of disadvantaging those operations that sit outside the major and regional banks.

To be competitive in the financial services industry you must remain progressive, innovative and certainly offer interest rates that are available in the market, but if small operations have to continually meet the many compliance and regulatory imposts that keep coming, layer after layer, with no decidable extra risks evident that do not produce revenue only extra cost, then that slight chance of being competitive disappears.

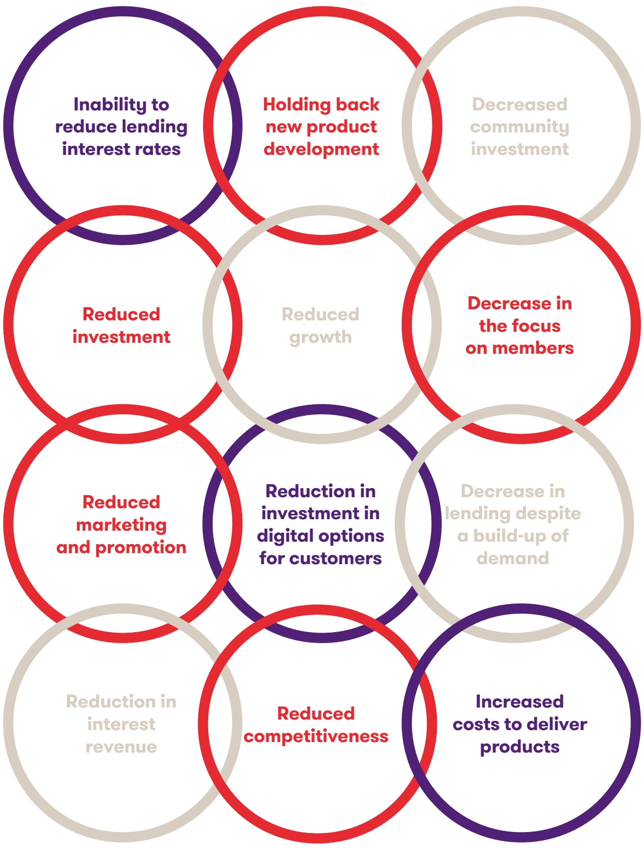
So the solution is to be fair and proportionate with the size, non-complexity and risk status of an institution so as to supply an equal and level playing field to remain and be competitive in the market."
Chief Executive Officer, COBA member

13. Pg. 55 https://www.pc.gov.au/inquiries/completed/financial-system/report/financial-system.pdf
14. https://www.dnb.nl/en/news/news-and-archive/DNBulletin2018/dnb376252.jsp

Opportunity cost

In customer owned banking institutions, every dollar needed to meet regulatory costs is a dollar denied to product innovation, investment in new technology, better service and better pricing. These are the opportunity costs of compliance.

We discussed at length the key opportunity costs which had impacted our survey participants.



"The 10% residential mortgage investor lending cap unfairly stifled our ability to compete. It also reinforced a perception in our member base that we were uncompetitive and not relevant and undermined our member value proposition.

Given the cross collateralisation of security which supports most residential investment lending, our inability to compete often resulted in a loss of members and existing owner occupier homes loans – often to the Big 4 banks.

The removal of the lending cap will level the playing field, improve our ability to compete and allow us to meet more of the needs of our members."

Chief Executive Officer, COBA member

The price for consumers

It is often said that the costs associated with compliance are passed to customers. Often the cost is not only money. It can be time, opportunity and availability.

Over-regulation and the implications of the cost of compliance can hurt consumers in a variety of ways including:

- Fewer options for products and services
- Higher prices
- Lower returns on savings
- Time delays for processing requests
- Closure of branches

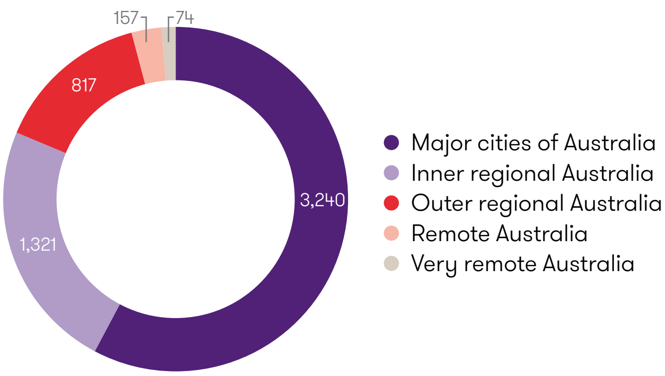
In the past 12 months there has been an average 3.6% decrease in branches across the country, which included a loss of 44 branches in areas classified outer regional Australia. In the last ten years, ANZ alone has closed 91 rural branches[15]. The impact of those closures effects communities in a number of ways. Access to financial services, the employment provided by the branch itself and associated services such as cleaners

15. Royal Commission Interim Report Vol. 1. pg.260

etc. and also the connection and understanding which those branches have with the local community, their circumstances, needs and cultural factors which cannot be replaced through online solutions and call centres.

Ultimately the community pays, and the payment is not always financial.

ADI branches by location



"In terms of the APRA Reporting Project a number of returns have been added (such as 910, 330, 223,180), and significant changes have been made to existing returns (such as 221, 210, 220, 120). It is anticipated that this rate of change will not decrease. APRA has already announced a future overhaul of the submission mechanism.

This piece of work is in addition to the work required to implement New Accounting Standards AASB9, AASB15 and AASB16 which is another example of the 'layering' of regulatory change. Each piece of legislation is considered in isolation of the other.

The impact of the continuous addition and change to requirements, together with the complexity of new business rules has doubled the cost for us from ~250K to some ~500K. In addition to this there has been the need to divert a subject matter expert from their existing role to meet compliance and to seek to back fill the role in Finance. The impact of which is extraordinary."

Chief Executive Officer, COBA member

Community investment

Customer owned ADI's are vastly different to listed ADI's. By their very nature, a customer owned bank is in a mutually supportive relationship with its members who are generally members of a geographic community or specific occupational community such as teachers, police officers, nurses, soldiers etc. Profits of these organisations are reinvested for the benefit of all members. The whole reason for the organisation's existence is to serve their members and community.

The approach to community investment was far reaching among the entities surveyed. Investment was both financial and non-financial and included:

- Sponsorship of local conferences
- Drought relief for local farmers
- Local education awards
- Sponsorship of rural and regional events such as rodes, festivals and races
- Tertiary scholarships
- Loaning equipment to community groups
- Investing in community tech hub
- Regional mentoring programs
- Sponsorship of community awards
- Sponsorship of local school events
- Community Reward Program
- Community grants
- Donations to local sports clubs
- Donations to development of local school
- Low rate loans for any environmentally friendly purpose
- Supporting disadvantaged children
- Supporting local charities
- McGrath Foundation

The importance of this sector of ADI's cannot be assessed through pure financial analysis alone. The contribution to communities in terms of employment in regional areas, charitable contributions, accessibility and often a unique and deep understanding of the community they serve is often overlooked. Customer owned ADI's tend to have a more personalised level of customer service that many of their members value. Fundamentally, the goals of the customers, as owners, are the goals of the institution.

During the Royal Commission hearings this year, there have been case studies which has highlighted a disconnect between the larger banks and their customers. There have been countless stories of the drive for profit at the expense of satisfactory outcomes for customers. Yet, it may transpire that regulation resulting from the outcomes of the Royal Commission, are applied using a "broad brush", impacting all ADI's including those whose whole basis is already for the benefit of their customers.

While it is essential that all ADI's are held to the same principles of fairness, quality and customer service, what must be queried is what value should be placed on customer owned ADI's and their contribution back to their communities – in the form of reinvestment in the community, support for local people and businesses and more time spent creating long-term relationships over generating profits – and how this can be factored in to mitigating the burden of regulation.

Considerations for proportionate regulation

As decision makers consider how to respond to mountain if evidence of 'bad behaviour' which has been exposed in the financial services industry, it is important to remember which institutions were at the centre of the storm. In many cases their size, complexity and business models were significant contributing factors to the misconduct. Inadequate oversight, poor governance, lack of accountability, drive for profit, dishonesty and greed have all had a serious impact on ordinary Australians.

"Before the Commission was appointed, all four major banks had publicly recognised that their conduct, or the conduct of associated entities, had fallen short of what the community expected."[16]

Meanwhile, customer owned and smaller entities, who already have consumers at the centre of their business models, are being subjected to the ever increasing and disproportionate cost of regulation. Behind the time and costs spent on compliance, regulators are pressuring smaller entities to merge, going as far as asking them to document and plan for consolidation. Meanwhile, major banks, the ones who have failed their customers time and time again, are continuing to reap significant profit and reward.

A key point is that if additional requirements are implemented to address the poor behaviour identified in the Royal Commission, the main effect will not be felt by the Big 4, but by the smaller and customer owned entities who were not the principal parties to the misconduct.

16. Royal Commission Interim Report Vol.1 Pg.33

When deliberating on the formal outcomes and responses to the Royal Commission, decision makers need to be conscious of the impact their resolutions may have.

It is vital to:

- Positively consider ADI's size, risk profile and complexity when imposing regulation
- Allow more possibilities for exemptions from reporting on risk factors which are not related to an ADIs business model
- Explore the possibility of creating a separate regulatory framework for less complex entities
- Recognise that for the same regulatory proposal, economies of scale could potentially result in costs outweighing benefits for smaller banks
- Ensure that the cumulative regulatory cost burden is considered at the regulatory policy design stage
- Accommodate different models, such as the customer owned model, particularly where the model itself can mitigate risks that are otherwise addressed by regulation (e.g. lending standards)
- Avoid layering regulation. Review and refine rather than just adding more detail and complexity
- Consult with institutions across the industry
- Increase consultation between regulators when implementing changes to avoid ambiguity and complexity

"Regulation and supervision should be tailored to the size and complexity and, most of all, the risks borne by the financial institutions."
De Nederlandsche Bank May 2018

The survey

In order to understand the impact of disproportionate regulation and cost of compliance an online survey was sent to the Customer Owned Banking Association (COBA) members during September 2018 which sought to gain both quantitative and qualitative information regarding the individual entities and the impact of both recent and planned regulatory change.

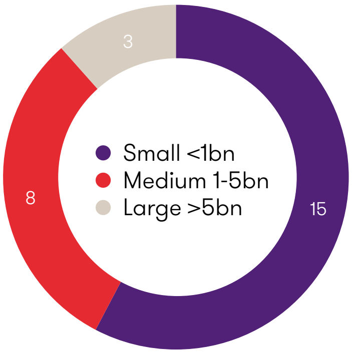
The survey was followed by a number of interviews with entities to verify the data and gain further understanding regarding key areas.

Participants

Twenty-six (26) entities responded to the survey. Respondents have been classified into three categories based on asset size.

We are extremely grateful to those individuals and entities who contributed to this research. Without your valuable input we would be unable to highlight the extent to which regulation impacts your organisations.

Participants by asset size



Contacts

Madeleine Mattera
Partner & National Head of Financial Services
+61 2 8297 2773
madeleine.mattera@au.gt.com

Madeleine is focused on helping small and medium sized financial organisations grow and prosper. She has over 25 years of financial services industry experience, including ADIs, General Insurers, Health Insurers, Superannuation Funds, Asset Managers, brokers, dealers and their associated risk management, regulatory & compliance obligations.

Darren Scammell
Partner & Head of Financial Services – Victoria
+61 3 8663 6135
darren.scammell@au.gt.com

Darren's approach is to balance the needs of clients, regulators and the board, while remaining independent and commercial. He has been the trusted audit partner for organisations including BUPA's Australian and New Zealand operations, ANZ, NAB, Japara, La Trobe Financial Services, The Salvation Army and the Victorian insurance agencies, TAC and WorkSafe.

Kathleen Wheeler
Senior Manager, Grant Thornton Consulting
+61 2 8297 2683
kat.wheeler@au.gt.com

Kat is passionate about conduct, culture and governance in the financial services sector. She is a skilled risk manager and internal auditor. Kat joined Grant Thornton in January 2018 from APRA where she supervised two major banking groups. Prior to this she spent more than 10 years in the UK which included three years at Deloitte where she assisted financial services clients navigate the regulatory changes following the GFC.

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