

21 May 2018

General Manager, Policy Development  
Policy and Advice Division  
Australian Prudential Regulation Authority  
Sent via: ADIpolicy@apra.gov.au

Dear General Manager, Policy Development

**Re: Revisions to the capital framework for authorised deposit taking institutions**

People's Choice welcomes this consultation on the proposed revisions to the capital framework. We are supportive of the move towards greater competitive neutrality in the Australian banking industry through the reduction in risk weight differentials between small and large institutions. This will ultimately benefit the four million customer owned banking members nationwide.

Please accept the attached submission for consideration as part of the proposed revisions to the capital framework for authorised deposit taking institutions.

Thank you for the opportunity to contribute on the capital framework.

Yours sincerely



Steve Laidlaw  
Chief Executive Officer

**People's Choice Credit Union submission  
to the discussion paper 'Revisions to the capital  
framework for authorised deposit-taking institutions'**



People's Choice Credit Union's (People's Choice) core purpose is to serve its members through the provision of a full range of banking services. People's Choice and other mutually owned 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.

People's Choice is supportive of revisions to the risk weight framework which reduce the differential in regulatory capital requirements between small and large ADIs. We believe that these steps assist in the move towards competitive neutrality within the Australian banking industry whilst also continuing the facilitation of financial system stability through a strong and well capitalised banking system.

Whilst we are supportive of the move toward a more level playing field, we do have feedback on two elements within the proposed framework, which we submit for APRA's consideration.

**Proposal 2.3.1 – Operational requirements for standard mortgages**

People's Choice believes that the designation of loans approved outside of the ADI's serviceability policy as 'non-standard' could have the unintended consequence of lowering credit policy standards across the industry. Underwriting policies vary across the industry and as such decisions made within or outside of a particular ADI's serviceability policy will not have the same risk profile for all ADIs. The use of loan serviceability policy as a determinate of risk weights favors lenders with less conservative policies. In effect riskier lenders will hold less capital and there will be incentive for more conservative lenders to lower their policy standards to achieve a similar capital outcome.

**Proposal 3.1.2 – Retail exposures**

We ask that APRA reconsider the increase in the standardised risk weights for retail exposures (other than credit cards) from 100% to 125%. People's Choice acknowledges that losses on this portfolio may be higher than some other asset classes in a significant downturn. However, we maintain that a risk weight of 100% adequately accounts for this potential outcome. In particular we believe that credit should be given to the more favorable potential loss position for retail exposures that are secured by collateral, for instance car loans. At 3.2.2 APRA proposes that SME exposures secured by collateral other than property would be subject to a reduced risk weight of 85%. People's Choice is of the view that a similar approach should be taken when collateral is provided as security for a retail exposure.

This position is supported by the loss experience on People's Choice's personal loan portfolio. The balance of the portfolio is \$440m, 97% of the loans are secured by collateral, primarily by vehicles, and the annualised portfolio loss rate is only 0.43%. Even if losses were to significantly increase a risk weight of 125% would be well in excess of what is needed to adequately address the impact.

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