19th May 2017

Review Chair

Mr Greg Hammond OAM,

[coopsandmutualreview@treasury.gov.au](mailto:coopsandmutualreview@treasury.gov.au)

Dear Mr Hammond,

Re: Reforms for cooperatives, mutuals and member-owned firms

Teachers Mutual Bank Limited (TMBL) is an Approved Deposit Taking Institution owned by and servicing key workers through our brands, Teachers Mutual Bank, UniBank, and Firefighters Mutual Bank.

Teachers Mutual Bank Limited is a member of Customer Owned Banking Association (COBA), Business Council of Co-operatives and Mutuals (BCCM) and The Australian Mutuals Group (AMG) and has participated in the preparation of each of those bodies submissions to the inquiry.

TMBL has previously made submissions to the Senate Inquiry into cooperative, mutual and member-owned Firms and to the Financial Services Inquiry, which we believe this inquiry has reviewed and we will therefore keep this submission brief, to highlight the key factors to the facilitator.

The Bank has a profound interest in the subject of the inquiry, given our projected need for capital. Whilst TMBL has historically relied solely on Retained Earnings to generate capital, we see a need to prove our capability in capital raising to build flexibility into our balance sheet management and enhance market confidence; as we build the organisations scale, scale that is required to maintain our efficiency, technology development and cover regulatory compliance costs.

We are currently negotiating the regulatory landscape to issue Tier 2 capital and intend to issue Additional Tier 1 capital over the next 3 years.

Should instruments that meet APRA’s Core Equity Tier 1 requirements become available, TMBL would certainly explore the utilisation of these instruments, taking into consideration:

* the cost and lead time to develop, especially the regulatory interactions required
* the cost to issue and market
* the costs and structure of servicing
* market appetite for this style of instrument
* whether opportunity without prohibitive costs existed for ordinary member participation
* strategic implications for the required dividend calculations
* taxation implications
* our business requirements for capital at the time
* the economic return on such capital justifying its issuance.

The bank sees growth as a key strategy. TMBL’s annual growth rate of its mortgage portfolio has outgrown that of the industry in each Financial Year since APRA began publishing the Monthly Banking Statistics in June 2002.

It is no secret that high competition and low interest rates are driving tighter margins. These reductions are difficult to fill through expense efficiencies and other revenues. So, although we run a profitable competitive business, our expansion will be limited by the reducing growth level of retained earnings available to support the balance sheet in the absence of other capital instruments. This is exaggerated by the differentials in the risk weights allowed under APRA’s standardised approach to credit risk to those achieved by the larger banks using the Internal Ratings Basis approach; resulting in TMBL requiring greater levels of additional capital to support additional mortgages than our competition.

APRA and the rating agencies are placing greater emphasis on core equity capital – ordinary shares, so despite our ability to issue hybrid instruments, these are becoming less recognised.

TMBL is committed to the mutual model and the member, community and environmental benefits it provides over other corporatisation models. We are awarded for our service levels, our products, innovation in environmental sustainability, corporate social responsibility and ethical governance.

Our Constitution provides for equality of voting rights, both for appointments of directors and resolutions at General Meetings, not dissimilar to the democratic Constitution of Australia; one member – one vote. TMBL believes that this philosophy is what sets our focus and culture apart from listed organisations. The history of government regulation of mutual financial institutions saw our regulation move from specific recognition under state legislation, to a more general registration as a company under federal legislation, with oversight by ASIC and APRA. The companies legislation works under a general principle of the voting rights being proportional to the investment made. It seems peculiar that the legislation provides protections for owners in the case of demutualisation whilst not specifically recognising or defining a mutual. This creates uncertainty and unnecessary regulator involvement in transactions that are not a demutualisation, yet need regulatory exemption for cost effective execution.

TMBL believes that changes are required in the legislative and regulatory environment;

* That the corporations act requires changes to recognise the alternative governance structures of mutual organisations where alternative methods of determining voting rights other than amounts invested.
* That capital issuances be able to be made that provide for loss protection without effecting voting rights of members of mutuals.
* That regulations be changed so that the regulatory intervention is not required in capital raisings by mutuals that are not demutualisations.
* That taxation and prudential regulatory changes be made to give equal status to capital raised by mutuals to that of ordinary shares, or instruments that convert to mutual capital.
* That innovative, low documentation, minimum advice ‘crowd sourcing’ of capital be allowed by mutuals from their members for amounts under $10,000 per investor/member – regardless of the total raised, to encourage ordinary member participation and share in the success of their organisation and distribution of taxation franking credits generated on profits made from the services they bought, rather than such capital raisings being dominated by cost effective low document approaches being limited to high net worth individuals or institutional investors.
* That regulators be required to respond to submissions within a limited time frame, and that such responses must identify issues in the first response, not new issues in the fifth iteration.

I thank the facilitator for the opportunity to make this submission and I am available for further consultation should that be of assistance.

Regards

Glenn Sargeant

Chief Financial Officer