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7 February 2023

The Executive General Manager
Mergers, Exemptions and Digital
Australian Competition and Consumer Commission
GPO Box 3131
Canberra ACT 2601
BY EMAIL: **anz-suncorp-merger@accc.gov.au**

Dear Sir,

Judo Bank Submission to the Australian Competition & Consumer Commission (ACCC) regarding the proposed acquisition by Australia and New Zealand Banking Group Limited (ANZ) of the shares in SBGH Limited (the parent company of Suncorp-Metway Limited, trading as *Suncorp Bank*) (Proposed Acquisition)

Thank you for providing interested parties with the opportunity to comment on the Proposed Acquisition.

1. Who we are

Built from the ground up by a team of deeply experienced and highly credentialed business banking professionals, Judo Bank is Australia's only bank dedicated to small and medium enterprises (**SMEs**). Our relationship-based model and legacy-free platform uniquely positions us against the large incumbent banks – particularly in the current environment, where our service proposition to SMEs has never been more important.

Since Judo Bank obtained its banking licence in April 2019, we have provided over $6.8 billion of funding into the SME sector. We have invested heavily in attracting and recruiting the country's best relationship bankers, and currently have circa 127 frontline bankers (supported by a large team of circa 48 analysts) across Australia.

2. Our commercial relationship with ANZ

ANZ is a material service provider to Judo Bank, which is a customer of ANZ's institutional division.

We would compete against both ANZ and Suncorp Bank across the following products, services and/or segments:

(a) Personal term deposit products

(b) Home loans (noting that ours are only available to business lending customers or Judo Bank's staff)

(c) Agribusiness banking

(d) Business loans

(e) Business deposit products

(f) SME banking

(g) Asset/equipment finance

For clarity, we would consider items (c) - (g) above to form part of our "SME business lending" suite.

3. General observations

Judo Bank's core philosophy is that every SME (including Agribusiness banking and asset/equipment finance) customer is unique, and that relationships are built on deep understanding and trust. Judo Bank's relationship promise is that our SME Customers deal directly with the decision maker(s) in market, who are empowered to assess each application on its merits - the quality of the business and the people running it, within agreed industry and portfolio thresholds. Our SME relationships are not 'set and forget', with our bankers being readily available, and responsive, to their SME customers (often at the customer's premises) throughout the lending lifecycle.

Within the guardrails provided by our Risk Appetite Statement, we emphasise the "4 Cs of Credit": *Character*; *Capacity* (or cash flow); *Capital* (or equity); and *Collateral*, in that order. Judo Bank believes this contrasts with the wider banking industry, which has largely defaulted to the fourth "C", collateral.

In relation to <u>all</u> our SME Customers, we consider factors such as the following before making a funding decision:

1. **Character:** management track record, experience, ability, integrity and willingness to repay;

2. **Capacity:** assessment of the cash drivers of an SME Customer regarding its ability to repay debt under

sensitised scenarios;

3. **Capital:** balance sheet strength, capital-to-debt ratios; and

4. **Collateral:** appropriate security based on lending policy and guidelines.

We do not consider the SME business lending market to be a single, homogenised "national" market. We consider that SME business lending more heavily involves *local*, rather than national, elements of competition, pricing and knowledge/expertise. For example, while product *design* considerations (eg features and eligibility criteria) would be made at a national level, product *pricing* and *choice* considerations would be tailored to/selected by the particular customer.

Judo Bank believes in tailored solutions for SME customers that take into account factors such as the underlying business strength of each customer, the customer's risk profile, industry and geographical location, and their particular circumstances and needs.

For that reason, anything that will:

- be likely to substantially lessen competition in the SME lending market by further reducing the pool of SME lenders in this country (and particularly in Queensland); and
- further compound and accelerate the industrialisation of specialised SME lending, making it more challenging for SMEs to access finance generally in this country (and particularly in Queensland),

may result in substantial detriment to small business and by extension, consumers.

We are aware, from the ACCC's submission to the Productivity Commission's *Inquiry into Competition in the Australian Financial System* dated September 2017, that the ACCC recognises (<u>emphasis added</u>):

> Retail banking markets in Australia are characterised by oligopolies comprising the large banks, who can influence products, prices and other conditions in important markets either alone or together. The ACCC considers that in situations of oligopoly, all else being equal, <u>a market structure that enables a competitive fringe of second tier firms to effectively challenge the price and service</u>

> decisions of large incumbents is likely to produce significantly better outcomes for consumers than one that does not ....
>
> Where [a continuous expansion of large banks into other financial services markets in Australia] occurs through large bank acquisition of an existing business, the ACCC will scrutinise such acquisitions, particularly where the target is a vigorous and effective rival that drives significant aspects of competition in financial services markets such as in relation to price, innovation or product development, even though their market share may be modest.

We consider Suncorp Bank to be a vigorous and effective rival, particularly for Queensland SMEs and other customers.

We also note that there has been substantial consolidation in Australia's banking system over recent months, caused by a number of very public exits from the banking sector; no doubt exacerbated by the very real and continued barriers to entry for new entrants. Reasons for this include that:

- regulatory capital requirements and operational costs for new banks are punishing in comparison to established incumbents, who can take advantage of existing economies of scale, and fintechs, which do not hold banking licences and are not subject to the same regulatory standards as banks. While it is often cited that we have succeeded despite **not** having a branch network, we do not have a branch network precisely because there are widely acknowledged barriers (e.g. significant set-up and ongoing operational costs) to establishing a new branch network.
- major banks continue to 'industrialise' their banking business models e.g. by way of increased digitisation, automation of the credit decisioning process, de-personalisation and centralisation of many core customer activities. Judo Bank was founded because we believe this has led to a decline in traditional, in-person relationship banking provided to SMEs, which highly value direct access to a relationship banker with a strong understanding of their business and industry. Our 'high touch, high tech' model sets us apart, but given our age and size, is a costly business model in comparison to the industrialised approach. As noted, we do not enjoy the kinds of economies of scale that the larger banks do.
- major banks generally have access to cheaper wholesale funding than the smaller banks – lower funding costs further enable them to entrench their competitive advantages.
- the risk weight settings for major banks and non-bank lenders impact smaller banks, like Judo Bank, which have a particular focus on SME business lending i.e. the greater the amount of higher risk assets and loans that a bank has, the higher its risk-weighted assets, and therefore, the higher the amount of capital the bank must have in order to meet APRA's minimum capital adequacy ratios.

As a unique, pure-play SME business lender, we are committed to the craft of SME banking to support the businesses that represent the engine room of the Australian economy.

We believe that each SME is different, and that each deserves a bespoke relationship with its bank that is built on a deep understanding of its business, as well as on professionalism, trust and exceptional customer service. Things that have been lacking in the banking industry for decades.

We have long felt that SMEs were being left behind, or taken for granted, by the rest of the industry that has prioritised mortgage lending, industrialised its operating models and fundamentally diminished its relationship proposition in a market with no real competition.

To assist the ACCC in determining whether the Proposed Acquisition is likely to result in substantial small business or consumer detriment, regard should be had to the Net Promoter Score (**NPS**), which is a measure of customer loyalty and satisfaction, for ANZ and Suncorp regarding the products, services and/or business segments in which they compete. If, for example, Suncorp Bank currently has a strong NPS in relation to the SME business lending, Agribusiness banking and/or home loan segments, the ACCC should consider whether:

- the Proposed Acquisition may negatively impact that to a material degree.
- any "Combined Entity" arising out of the Proposed Acquisition is likely to generate positive NPS from those Suncorp Bank customers who do choose to continue banking with the Combined Entity.
- post-completion of the Proposed Acquisition, any 'nationalising' or 'rationalising' of the Combined Entity's operations in Queensland will occur that may give rise to both a lessening of competition in that market, and substantial small business or consumer detriment.

I would be pleased to discuss any aspect of this submission with you. You can either contact me, or my colleague Yien Hong, General Counsel and Company Secretary (+[redacted]; yien.hong@judo.bank).

Yours sincerely,

[redacted]

Joseph Healy
Chief Executive Officer