

MEDIA RELEASE

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Xinja response to Productivity Commission draft report

Xinja is building the first Australian, independent 'neobank', 100% digital and designed for mobile.

Xinja's key points from the Productivity Commission draft report: *Competition in the Australian Financial System*

- existing customers don't get the deals new customers get on home loans or insurance
- it should be easier for consumers to see what others are paying
- mortgage brokers are not working in customers' interests
- consumers find it too complex to change banks or switch products
- insurance companies don't explain increases in premiums adequately
- there are many brands in the marketplace but they often come from the same company
- consumers should be allowed to feel confident about complex decisions

Today's draft report from the Productivity Commission highlights the need for a revolution in how Australian banks treat their customers, said Xinja CEO Eric Wilson.

"We share the concerns about the lack of effective competition and the flow of commissions creating an environment where customers' best interests are sidelined," Mr Wilson said.

"The report highlights the role of technology and transparency in developing solutions. As Peter Harris, Presiding Commissioner, says in the report information is crucial to competition."

It highlights the lack of competition in the sector, and the barriers to entry for new banks. The Productivity Commission report, which also notes the Reserve Bank's view, states the key to real competition into the market is to encourage new entrants (p80).

The Productivity Commission also highlights how important it is for start-ups like Xinja to have access to capital. APRA and the federal government last year loosened restrictions on new entrants, and ASIC in January changed the requirements around crowdfunding, allowing Xinja to go to the retail market. The Commission also points out that there is currently legislation before Parliament that will make it easier for start-ups like Xinja to enter the market and create competition, allowing them to use the term 'bank'. (p126)

Mr Wilson said the report highlights how difficult it is for customers currently to compare products effectively: there is a lack of accessible information and products are complex. There is a very strong case to be made for a new 'regime' of transparency.

"The answer to this is often technology and it's time Australians had access to the kind of technology that is already available in other parts of the world," Mr Wilson said.

"The Open Banking movement, already well underway in Europe, is an example of enabling consumer choice by legislating to allow customers easy access to their own financial data.

"The incredible inertia of customers in terms of moving bank accounts as cited in the report is evidence of how hard this is to do.

"The Open Banking enquiry in Australia will, we hope, empower customers not only to change financial services providers more easily but give them access to a range of financial services where they can easily compare and identify the most competitive product for their needs. This is exactly where we are heading with Xinja."

Treasurer Scott Morrison is currently reviewing the Open Banking regime report.

Xinja, like many overseas neobanks, is being designed in its customers' interests. Xinja will have a lower cost base, partly because it will be 100% digital. There will be no paperwork or branch networks. Furthermore costs will also be lower because Xinja is unencumbered by costly legacy systems.

"We will leapfrog to better, cheaper technology and pass on that cost saving to customers," Mr Wilson said.

"But more than that, Xinja can leverage technology to reduce complexity and allow customers to make better, faster money decisions without the angst.

"It's perfectly possible to run a profitable bank whilst actively helping your customers make the most out of their money."

The Productivity Commission report also refers to a brand or marketing smokescreen which creates a false perception of competition for consumers.

The report states much of what passes for competition is more accurately described as persistent marketing and brand activity designed to “promote a blizzard of barely differentiated products” and ‘white labels’ products. Mr Wilson cautioned against “new digital brands” that represent existing market forces.

“I think we will see an emergence of new digital brands that are in fact only digital front-ends on old banks, designed to capture new audiences,” Mr Wilson said.

“But they will be backing onto the same products, the same level of service, the same expensive legacy systems and the same ethos, so it’s hard to believe they will bring true benefits to customers.”

Xinja is launching its app and first product, a prepaid card, at the end of this month and hoping to launch transaction accounts to clients from June or July, subject to Xinja gaining a banking licence.

The company submitted an application in 2017 to the Australian Prudential Regulation Authority to become a Restricted Authorised Deposit-taking Institution.

Xinja is not a bank yet, but is working with regulators to become one.

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