Competitive juices flow as Judo gets on a roll and...

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Competitive juices flow as Judo gets on a roll and Xinja elevates its warrior status

Stirrings of competition are emerging in the financial services industry, only months after a draft Productivity Commission report slammed its level of market concentration and complacency.

The ambitions of start-ups such as SME lender Judo Capital and neobank Xinja pose no immediate threat to the dominance of the big four commercial banks.

They are confident, however, of carving out profitable niches by competing on product, service levels and — tactically, at least — on price. That alone will be no small achievement, given the number of banks has halved since 1999 to 148 institutions due to a never-ending round of mergers among banks, credit unions and building societies.

Judo, founded by former NAB senior executives Joseph Healy and David Hornery, formally opened its doors for business in Melbourne last week after raising $100 million in capital from institutional investors and family offices. Healy stresses that Judo is "emphatically" not a fintech, instead borrowing from the challenger bank model successfully executed in Britain by the likes of Aldermore and Shawbrook.

The Judo experience shows that serious money is prepared to back well-credentialled management teams with oligopoly-busting business models.

Xinja, piloted by another former NAB executive Eric Wilson, is at the other end of the start-up spectrum. A 100 per cent digital bank designed for the mobile market, Xinja last week finalised the nation's first retail equity crowdfunded offer, raising more than $2m through the fintech company Equitise. One in four investors committed the minimum amount of $250, with seven in 10 contributing less than $1000.

Judo aims to secure a banking licence from APRA under the old, more stringent regimen, which calls for a minimum of $50m in tier one capital. Xinja, on the other hand, was recently granted its Australian credit licence by ASIC, and is seeking fast-track approval for a banking licence under APRA's modified framework.

The Productivity Commission bemoaned the trend among fintechs to collaborate with incumbents to improve efficiency and cut transactions costs, because it reduced the potential for a new source of competition.

Xinja is an exception to the rule, while Judo has the majors squarely in its sights with a retro relationship-banking model.

Anti-bank bias abounds

After a points victory to the financial services royal commission in the first round of consumer lending hearings, the challenge for commissioner Kenneth Hayne is to maintain the momentum and erode public scepticism about the likelihood of improved practices.

From an industry perspective, it's also an open question whether the 2800-odd submissions to the commission so far represent a true guide to the level of misconduct and bad behaviour.

If so, should a critical industry such as banking be upturned when its failure rate on acceptable customer service is less than a rounding error?

Public support, of course, does not determine the success or otherwise of a royal commission, although it certainly helps with the credibility of its findings and the prospects for meaningful reform.

Scepticism was widespread before the commission started the public phase of its consumer lending probe on March 13.

After polling 1400 people, independent financial services research firm Coredata found an uncomfortably large proportion of

Many believe the royal commission is a waste of money

42.4 per cent believed the inquiry is a waste of money.

Only 44.3 per cent thought it would produce recommendations likely to improve the quality of financial services.

The research suggests that anti-bank bias is alive and well in the community.

More than half of the respondents (54.3 per cent) agreed with the statement that "financial services companies always act in their own best interests", with only 10.6 per cent believing the opposite applies.

Not surprisingly, Labor, Greens and independent voters were more likely than coalition voters to agree that the problem is industry-wide — in other words, a deep-seated cultural issue as opposed to a "few bad apples" in the system.

CoreData will continue to conduct polls throughout the life of the commission.

After the fireworks of the consumer lending hearing, the scepticism should have started to erode.

Anecdotal feedback is that people who have interacted with the commission in some way have been impressed by the "pointed and intelligent questioning" from staff.

"That's not always been the experience of dealing with regulators in Australia," CoreData principal and founder Andrew Inwood says.

Codes of conduct

If peace is possible on the Korean peninsula, why not a truce between Commonwealth Bank and Austrac?

Already we know CBA and the financial intelligence agency will cease legal hostilities for a day on May 25 to practise mindfulness and possible mediation of the bank's alleged money-laundering breaches.

Now, in a truly magnanimous gesture, a team sprinkled with CBA geeks has won an Austrac-hosted Codeathon held in the lead-up to last month's ASEAN-Australia special summit.

The Project Iceberg team's gong was recognition for ... wait for it ... "applying artificial intelligence to improve anti-money-laundering/counter-terrorism financing compliance and suspicious matter reporting".

Not only that, but the seven-person judging panel included two senior Austrac officers — national manager intelligence John Moss and chief innovation officer Leanne Fry.

Austrac chief executive Nicole Rose said the panel found that the winners in all six categories had demonstrated "genuine innovation and originality".

The Project Vision team boasted three CBA members, specialising in digital, software and blockchain.

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