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Association of Building Societies and Credit Unions

Abacus
Australian Mutuals

25 July 2008

Mr Stephen Boyd
Committee Secretary
Standing Committee on Economics
House of Representatives
Parliament House
CANBERRA ACT 2600

By email: economics.reps@aph.gov.au

Dear Mr Boyd

Inquiry into competition in the banking and non-banking sectors

Thank you for the opportunity to contribute to the Committee's inquiry into competition in the retail banking and non-banking sectors.

Abacus – Australian Mutuals is the industry association for credit unions and mutual building societies.

This submission makes the following recommendations to enhance competition and choice in the retail banking market and, in particular, home lending.

1. Policymakers should consider alternative wholesale funding mechanisms, including the "AussieMac" proposal, to ease upward pressure on interest rates.
2. Reduce the heavy tax burden on ADI deposits.
3. Do not increase the regulatory compliance burden on mutual ADIs.
4. Promote the ADI concept to strengthen the competitive position of mutual ADIs.

Mutual ADI sector

All credit unions and building societies are Authorised Deposit-taking Institutions (ADIs) regulated by the Australian Prudential Regulation Authority (APRA) under the *Banking Act 1959*.

Credit unions and building societies provide consumer financial services including transaction and savings accounts, home loans, personal loans, credit cards and debit cards, insurance and financial advice.

Collectively, mutual ADIs are the second largest holder of Australian household deposits behind the Commonwealth Bank.

The key distinguishing feature between Abacus members and other ADIs, such as the major banks, is that Abacus member ADIs are owned by their customers.

Unlike listed banks, mutual ADIs exist only to serve their customers and do not have to maximise returns to a separate group of shareholders. The focus of mutual ADIs on their customers is reflected in high customer satisfaction ratings.

According to the latest survey by Roy Morgan research[1], credit unions and building societies continue to strongly outperform the major banks in customer satisfaction. The percentage of satisfied credit union customers is 87.6 per cent and for building societies it is 85.6 per cent. The same figure for the four major banks is 70.2 per cent.

The ACCC described credit unions and building societies as "strong competitors on customer service" in commenting on Westpac's proposed acquisition of St George.[2] According to the ACCC, credit unions and building societies have a 17 per cent share of transaction accounts in NSW/ACT market and 24 per cent share in the SA market.

See attachment for more detail about the mutual ADI sector.

Mutual ADIs – market leaders in low interest rates, fees and responsible lending
Credit unions and mutual building societies are prudent and responsible lenders providing important competition in the home lending market. Credit unions and mutual building societies offer highly competitive home loan interest rates and low fees.

KPMG's annual survey of credit unions and building societies found that the sector achieved an "outstanding result" in asset quality, continuing to enjoy "historic lows in credit losses despite recent interest rate rises and early signs of financial stress in some sectors of the economy." [3]

Ratings agency Moody's observed recently that Australian credit unions and building societies "do not have direct exposures to US sub-prime mortgages, CDOs, SIVs or leveraged loans, nor are they engaged in high-risk mortgage lending. And although delinquency rates are likely to rise, such a development will be off a very low base and the outcomes will be more in line with historic average levels."[4]

Latest data from Standard & Poor's on arrears for prime residential-mortgage backed securities (RMBS) underlines the prudent and responsible lending performance of credit unions and building societies.

Lender	Dec-07	Jan-08	Feb-08	Mar-08	Apr-08	May-08
Major Banks	0.72%	0.83%	0.82%	0.88%	0.95%	0.92%
Regional Banks	0.90%	1.08%	1.23%	1.29%	1.44%	1.40%
Other Banks	0.79%	0.89%	0.96%	1.07%	1.12%	1.13%
CUs & BSs	**0.50%**	**0.56%**	**0.55%**	**0.68%**	**0.62%**	**0.62%**
Non-Bank Originators	1.89%	2.11%	2.15%	2.32%	2.18%	2.28%

[1] Consumer Satisfaction – Consumer Banking in Australia. May 2008. Roy Morgan Research.
[2] Statement of Issues – WBC proposed acquisition of St George. ACCC 23 July 2008.
[3] KPMG Financial Institutions Performance Survey 2007 Building Societies and Credit Unions, November 2007.
[4] *Australian Credit Unions: 2008 Outlook* Moody's Global Banking April 2008; *Australian Building Societies: 2008 Outlook* Moody's Global Banking April 2008.

Larger mutual ADI home lenders include Credit Union Australia, Heritage Building Society, Newcastle Permanent Building Society, Greater Building Society, IMB, Australian Central Credit Union, Savings & Loans Credit Union, Community CPS Australia, and Police & Nurses Credit Society.

Australian Defence Credit Union and Defence Force Credit Union are two of only three lenders recently announced as members of a new home loan subsidy scheme for Australian Defence Force personnel. The Defence Home Ownership Assistance Scheme is aimed at improving ADF retention and recruitment rates and selection of the participating lenders was a competitive process.

The competition and choice that mutual ADIs bring to the home loan market has become even more important with the decline of mortgage originators due to the credit crunch and the closure of securitisation markets.

Mutual ADIs are less reliant on wholesale markets for funding than banks and, unlike banks, mutual ADIs are not under pressure to put shareholders ahead of customers.

As indicated in the table below, with data sourced from Cannex on standard variable home loans, credit unions and mutual building societies have, on average, held rates at levels well below the banks.

18 July 2008	Average	Min	Max
Big Five banks	**9.62%**	9.58%	9.67%
Credit Unions	**8.98%**	8.44%	9.49%
Building Societies	**9.13%**	8.49%	9.65%

The status of credit unions and mutual building societies as fair and responsible market participants was confirmed recently in ASIC's Review of Mortgage Entry and Exit Fees.

ASIC's report shows that, on average, credit unions and mutual building societies charge less than banks and non-ADI lenders in mortgage fees.

The good performance is particularly noticeable in early termination fees, where ASIC's data says that over half of loans offered by mutuals in the study have no early termination fees, and the average fee of $400 is well below that of other lenders.

According to ASIC, 93 per cent of loans by major banks, 83 per cent of loans by regional banks and 65 per cent of non-ADI lender loans have early exit fees. Of the 88 loans from credit unions and building societies in the study, only 46 per cent had an early termination fee.

Credit unions and building societies also charge lower overall fees, according to ASIC's data. At an average of $1,388.11, credit unions and mutual building societies were charging far less than fees paid by customers of big banks ($2,255.81), other banks ($1,977.96) and non-ADI lenders ($3,627.83) for loans terminating within 3 years.

Impact of credit crisis on competition

Despite the significant challenges posed by the credit crisis for all financial markets over the last 12 months, mutual ADIs remain strong and secure. In addition to the low arrears profile illustrated above, capital and liquidity levels remain high.

Whilst mutual ADIs are not immune from the credit crisis, the sector is less exposed to volatile wholesale funding markets than banks and non-ADI lenders. Mutual ADIs can rely on retail deposits for the majority of their funding, with more than 80 per cent of total funding sourced from this segment. This compares to approximately 50 per cent for retail banks.

Of course, the effective closure of the securitisation market has had a flow-on impact for home loan borrowers. The significant increase in the cost of wholesale funds has resulted in intense competition for retail deposits, with term deposit rates rising around 200 basis points on average since the start of the credit crisis.[5]

The rising cost of funds for retail financial institutions is reflected in home loan rates and the impact on home loan borrowers and housing affordability has been significant.

The impact of the lack of liquidity in funding for lenders has affected some market participants more than others.

Mutual ADIs' market share[6] of new home loans is currently running at 5.4 per cent, down from 6.9 per cent in February 2008.

This decrease in market share reflects the closure of securitisation markets and the sharp reduction in this source of funding for larger mutual ADI lenders (as well as for non-ADI lenders and regional banks).

Many mutual ADIs were able to increase their lending by using securitisation but this avenue for expansion is currently highly restricted.

Abacus recommends that the Government should consider a range of measures to improve liquidity and competitive neutrality in the wholesale funding market. Such measures potentially include the so-called "AussieMac"[7] proposal for a new Government agency to acquire high quality home loans from lenders that wish to tap this source of liquidity.

The authors of the proposal say AussieMac would "serve to guarantee liquidity in the Australian home loan market in the event that other private sources of capital were to supply insufficient funding, such as is currently the case."

"Almost all observers would agree that the current liquidity crunch has absolutely nothing to do with the integrity of Australia's economy, our financial system, or the credit quality of Australian home loans. The simple fact is that Australian home owners, and the lenders that service them, have become casualties of the extreme illiquidity and risk-aversion that have [become] manifest in international capital markets as a result of the US sub-prime crisis," the AussieMac authors say.

The case against this type of intervention, outlined by Reserve Bank officials[8], is that it can expose taxpayers to considerable risk, distort the operation of markets in allocating resources, and potentially delay recovery of the secondary market.

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[5] Source: RBA, based on $10,000 deposit for three months.
[6] Source: ABS
[7] *AussieMac – A Policy Initiative for the Australian Government to Protect Households and the Financial System Against Current and Future Credit Crises*. Joye & Gans, April 2008.
[8] *Promoting Liquidity: Why and How?* Kearns & Lowe, RBA 14-15 July 2008

The question for policy-makers weighing up such an intervention is how long should the community tolerate the current reduction in competition in the home loan market?

The Senate Select Committee on Housing Affordability recommended in its June 2008 report that “Treasury examine the international experience with a securitised mortgage scheme and its application to Australia with a view to determining whether an 'Aussie Mac' style product would be beneficial in the Australian market.”

The relevant international experience is developing rapidly, with United States Treasury Secretary Henry Paulson recently announcing a three-part support package for the giant US mortgage funders Freddie Mac and Fannie Mae, the so-called Government Sponsored Enterprises (GSEs).

“Fannie and Freddie play a central role in our housing finance system and must continue to do so in their current form as shareholder-owned companies,” Mr Paulson told the US Senate Banking Committee on 15 July 2008.

“Their role in the housing market is particularly important as we work through the current housing correction. The GSEs now touch 70 percent of new mortgages and represent the only functioning secondary mortgage market. The GSEs are central to the availability of housing finance, which will determine the pace at which we emerge from this housing correction. In addition, debt and other securities issued by the GSEs are held by financial institutions around the world. Continued confidence in the GSEs is important to maintaining financial system and market stability,” Mr Paulson said.

In Canada, National Housing Act Mortgage-Backed Securities (NHA MBS) provide a source of funds for residential mortgage financing that is intended to benefit lenders, home buyers, investors and the wider economy.

The Canada Mortgage and Housing Corporation (CMHC) says the scheme provides a source of off-balance sheet funding for NHA MBS issuers (eg banks and credit unions) which reduces their capital requirements. The scheme benefits investors by providing a highly tradable security with guaranteed timely payment of all principal and interest.

“Homebuyers have more mortgage financing available to them,” CMHC says. “The housing and construction industries will, in turn, benefit. In addition, the NHA MBS add greater stability to the mortgage market by providing longer term mortgages and flexible prepayment privileges.”

Taxation of deposits

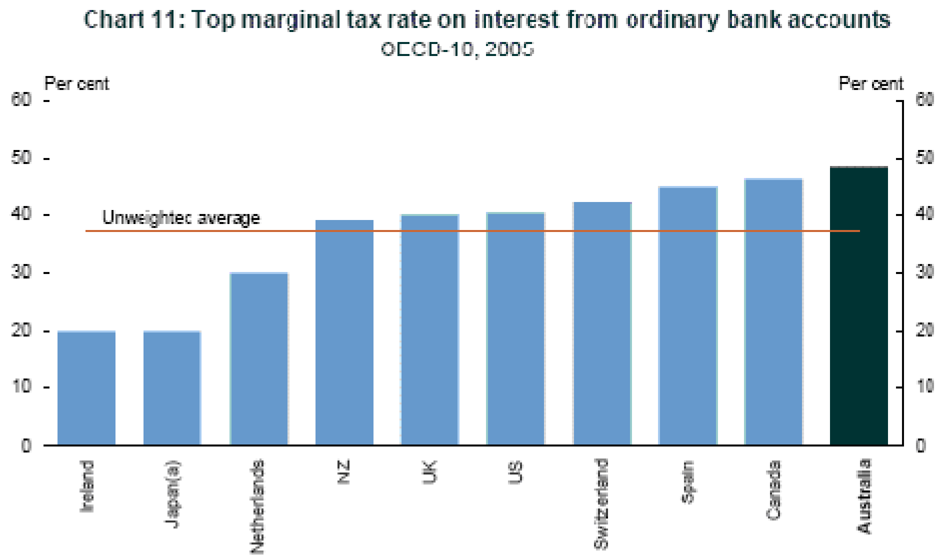
Deposits held by ADIs are the simplest, safest, most accessible and best understood savings vehicle. Deposits are also the most important source of funding for home loans.

However, deposits are the most heavily taxed savings vehicle compared to alternatives such as superannuation and shares.

According to a 2006 study,[9] Australia’s top overall tax rate on interest income from ADI accounts is the highest among comparable countries and is around 11 percentage points

[9] *International Comparison of Australia’s Taxes* Warburton & Hendy , Treasury 3 April 2006

above the average. Many of the 10 Organisation for Economic Cooperation and Development (OECD) countries in the study have a lower tax rate on interest income than the personal tax rate on wages and salaries. Australia is an exception.



The favourable taxation treatment of superannuation is one explanation for the long-term decline of the share of deposits in household assets. ADIs are competing over a pool of deposits that is shrinking as an overall share of household savings.

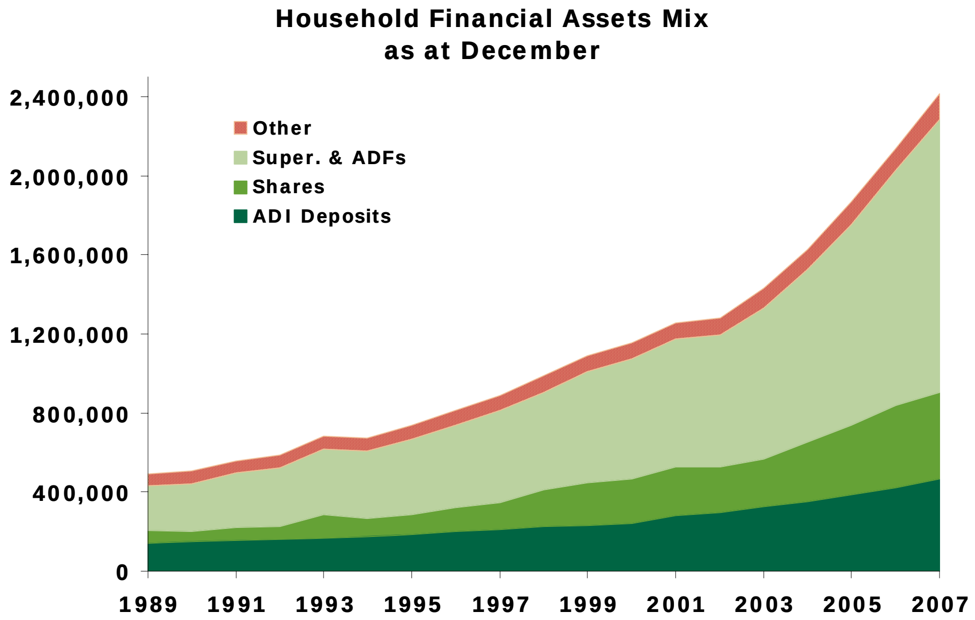
From a peak of more than 30 per cent of household financial assets in December 1990, deposits now account for less than 19 per cent. Credit unions and building societies have held their share of the deposits market, but it is a steady share of a declining market.

The graphs below illustrate the impact of these developments: the rising proportion of household assets held in superannuation and the impact on the deposits market.

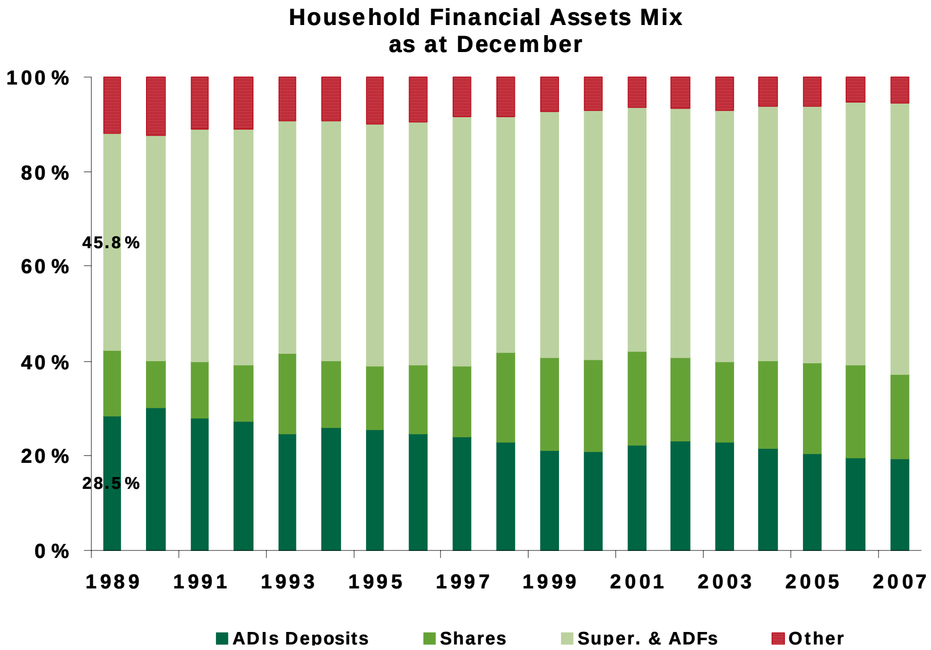
Increasing the attractiveness of deposits for savers will increase the amount of domestic funding available to ADIs for home lending and will reduce the reliance on more volatile offshore funding.

Abacus recommends consideration of measures to ease the taxation burden on ADI deposits.

1. ADI deposits face competition from superannuation and shares



2. Rising proportion of assets held in super



First Home Saver Accounts
Credit unions and mutual building societies welcome the introduction of First Home Saver Accounts (FHSAs) to help first home buyers to save a deposit for a home loan. Abacus expects that there will be mutual ADI FHSA products on the market at or soon after the FHSA commencement date of 1 October 2008.

However, FHSAs are a niche savings product with strict eligibility conditions and complex rules, and FHSA funds that are not used to buy a first home can't be withdrawn and must be transferred to superannuation. These features mean that ADI FHSAs will represent, at best, only a small addition to the deposit base of ADIs.

Regulatory compliance burden
The capacity of mutual ADIs to increase competitive pressure on major banks is constrained by the heavy regulatory compliance burden.

Credit unions and mutual building societies are subject to the same prudential regulatory regime as banks. Mutual ADIs are also:
- Australian Financial Services licensees under the *Corporations Act 2001*;
- Credit providers under the *Uniform Consumer Credit Code*;
- Reporting Entities under the *Anti Money Laundering and Counter Terrorism Financing Act 2006*;
- Signatories to the *Electronic Funds Transfer Code of Conduct*; and
- Subject to the *Privacy Act 1988*.

Regulatory compliance has fixed costs that disproportionately affect smaller ADIs. A report[10] on compliance costs released by ASIC and the Finance Industry Council of Australia found that the main concerns of the financial sector with regulation are:
- Poor implementation of some legislation;
- Some regulation is seen to be unnecessary; and
- The volume of regulatory requirements is difficult to manage.

Major cost components were: staff costs; training; documentation; IT; outsourcing (legal, audit, consultants); procedures; monitoring and recording; and, opportunity cost. The opportunity cost of regulatory compliance includes staff time and the impact on business expansion and new product development.

Regulation of credit
Abacus welcomes the decision by the Council of Australian Governments (COAG) to transfer the regulation of all consumer credit to the Federal Government but we seek a regime that minimises compliance costs for ADIs.

A national framework will improve consumer protection and create a level playing field for credit providers. The model we support is the Uniform Consumer Credit Code (UCCC) being enacted as stand-alone Federal legislation and the creation of an ASIC licensing scheme for finance brokers and intermediaries.

We oppose the alternative approach of defining credit as a "financial product" under the *Corporations Act 2001* and requiring credit providers, dealers and advisers to comply with the elaborate licensing, conduct and disclosure requirements of the Financial Services Reform (FSR) regime

[10] *A Report on Costs of Financial Services 2007* Chant Link & Associates. ASIC. December 2007.

A simple, targeted licensing system would achieve nationally consistent consumer protection without burdening responsible, well regulated lenders with additional regulation.

The FSR legislation has proved to be a lesson in regulatory overkill and unintended consequences, such as excessively long product disclosure documents.

Abacus seeks further reform of the FSR regime to deliver consistent regulation of simple, “Tier 2” products – deposits, general insurance and consumer credit insurance. This will lower costs for ADIs without reducing consumer protection.

Basel II
New capital adequacy rules introduced recently have the potential to have an anti-competitive impact in the ADI sector.

The Basel II capital adequacy regime was introduced into Australia on 1 January 2008. Abacus has argued for some time about the importance of ensuring that the new capital rules do not significantly advantage the major banks adopting the “internal-risk based (IRB)” approach to credit risk. Credit unions, mutual building societies and most regional banks will be subject to the “standardised” approach and will have less scope to reduce their regulatory capital requirements.

Whilst APRA has indicated that it will limit the capital reductions available to IRB banks in the short term, there will be increasing pressure from the IRB banks in the medium term to maximise the return on their substantial Basel II investments.

APRA and its counterparts in other countries may wish to revisit some aspects of Basel II due to the credit crisis. In a paper[11] to the recent RBA conference *Lessons from the Financial Turmoil of 2007*, it is noted that the UK regulator “signed off on Northern Rock becoming an early Basel II IRB obligor, knowing full well that this would dramatically reduce their capital, only shortly before the crisis began.”

The Blundell-Wignall paper quotes an anonymous “senior investment banker” describing Basel II in the following terms: “The more complex the structure the more scope there is for finding ways around it! It amazes me that regulators asked us to set our capital regulation weights, given the way the incentives are.”

Promote ADI concept
Since 1999 credit unions and building societies have been subject to the same prudential regulatory regime as banks. As ADIs, credit unions and building societies hold the same licence as banks and are subject to the same strict, legally-enforceable prudential standards as banks.

However, the ADI concept is not widely understood and banks continue to benefit from a perception that they are safer than other ADIs. In fact there is a widespread misconception that bank deposits are government guaranteed.

In public debate about retail banking issues, stakeholders tend to refer only to banks rather than “banks, building societies and credit unions.” This perpetuates the false

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[11] *The Subprime Crisis: Causal Distortions and Regulatory Reform*. Blundell-Wignall & Atkinson. RBA Conference 2008.

impression that banks have a prudential and regulatory standing that is superior to building societies and credit unions.

Abacus urges MPs, policy-makers, regulators and other stakeholders to promote the ADI concept and refer to building societies and credit unions as well as banks in public statements.

Abacus was extremely disappointed that a key regulator, ASIC, declined to take this approach in one of its regulatory guides, despite our request based on a review of the draft guide.

Regulatory Guide 156 *Debenture advertising* repeatedly refers to "bank deposits" but the terms "building society" and "credit union" each appear only once.

More significantly, the guide says: "Advertisements for debentures should state that the debenture is not a bank deposit. They should *also* not suggest that: the debenture is, or compares favourably to, a bank deposit."

The outcome of this advice from ASIC is that advertising of debenture products will have the side-effect of advantaging listed ADIs over mutual ADIs.

ASIC advised Abacus that it chose the term 'bank deposits' because "we felt that it was the most easily understood and straightforward term to use in advertising."

"We did not feel that RG 156 Debenture advertising was the appropriate vehicle for consumer education on Authorised Deposit-taking Institutions (ADIs). We felt that the use of advertising of the expanded term for ADI deposits and a discussion of the nature of ADIs generally might confuse a financially unsophisticated audience and potentially mislead the consumer from the main message," ASIC said.

"We agree that there needs to be a consumer education piece to promote community understanding of this sector and planning for that work is underway," ASIC said.

Abacus is unaware of the status of this consumer education proposal.

Account switching
The ADI sector, including all credit unions and mutual building societies, is currently implementing new pro-competitive account switching arrangements.

With strong encouragement from the Treasurer, the retail banking sector has committed to implementing the 'listing and switching' package by November 2008.

This project relates to transaction accounts. Switching a home loan account or a credit card account to a new provider is outside the scope the current project. This recognises that consumers can have a home loan with one institution, a transaction account with a second institution and a credit card account with a third institution.

According to the Australian Payments Clearing Association (APCA)[12], it is estimated that in Australia, 3.1 per cent of financial institution customers switch their accounts to alternative providers on an annual basis, compared with 4-6 per cent of United Kingdom customers.

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[12] Payments Industry Consultation Paper – Aspects of Account Switching. APCA September 2007.

APCA says that in the majority of the overseas models investigated, clearing and settlement of direct credit and debit transactions occurs through a central processing switch.

"In Australia, clearing and settlement of direct entry transactions occurs on a bilateral basis," APCA says. "Therefore those overseas models where a central processing switch underpins the functioning of an account switching service, or automated notification of new account details are not currently considered technically feasible for Australia."

APCA's 2007 paper on account switching canvasses the option of establishing a central registry to facilitate the portability of direct credit and debit arrangements.

"In essence, a central registry would maintain direct credit and debit information for all financial institution customer accounts, whether or not the customer required a separate record of this information. By this means, customers' direct credit and debit arrangements would in effect become independent of their financial institution or account," APCA says

"This would involve a fundamental change to the existing system, which…currently relies for speed, efficiency and cost-effectiveness on a decentralized data model. It is conservatively estimated that around 40 million separate customer records would need to be held in a central registry. These would, of course, need to be regularly updated by all existing financial institutions and/or [direct entry] Users on behalf of customers (with appropriate authority). New linkages, messaging and platforms would be required. Access rights would have to be strictly controlled to protect data integrity, confidentiality and privacy. Clearly, the cost would be substantial."

The switching package under development has the following features:

- The old financial institute (FI) will provide a list of the customer's direct debit and credit arrangements over the past 13 months to the customer in order to facilitate the establishment of the arrangements for the new account;
- The new FI will provide the customer with information and support to help the customer make the switch. If requested by the customer, the new FI will assist in notifying the billing or crediting organisations of the new direct debit and direct credit arrangements.
- The service will be supported by obligations in industry codes of practice. This will include obligations in regards to timeliness and to provide information to customers on how to avoid exception fees, and to deal fairly with customers throughout the account switching process; and
- APCA will further seek to support the efforts of FIs by developing generic information and support material for customisation by FIs in supporting account switching.

Abacus backed the launch of this process in our October 2007 submission to APCA, arguing that customer mobility and account portability is fundamentally important to competition in consumer banking services.

"Abacus supports measures to promote customer mobility and account portability, with an emphasis on a low-cost, practical and market-based approach," our submission said. "It is likely that consumer perceptions about the difficulty of switching accounts may be inflated. Simple measures to facilitate switching can go a long way towards overcoming this perception problem."

A recent study[13] by the UK Office of Fair Trading (OFT) of transaction accounts found that "despite the concerns that customers have about switching, many of those who do switch find it relatively easy and trouble free."

The OFT found that 83 per cent of people agreed that they were reluctant to leave a current bank they trusted for one they did not know despite the fact that 73 per cent also agreed that there were benefits to be gained from switching as a result of better interest rates and charges.

"Other studies have identified the importance of trust. The National Consumer Council's study found that 75 per cent of consumers thought that it made sense to use an established familiar company rather than a new company, even if the new one was offering a better deal," the OFT study says.

These findings are likely to apply to the Australian market, given the huge size and strong brands of the major banks.

The OFT says its findings "suggest that there is a significant element of trust involved in banking, that branding is very important and that consumers may be reluctant to move away from a known high street bank to a new entrant or less well known rival."

"This may be one reason why the established banks have been able to maintain their market share over time," the OFT says.

Stakeholders concerned about the dominance of the major banks in Australia's retail banking market should act to promote the ADI concept and the fact that listed, profit-maximising ADIs do not have any greater prudential regulatory standing than customer-owned, mutual ADIs.

Account number portability
One proposal to enhance account portability is to introduce account number portability. However, as indicated above, this would involve significant change to the Australian banking and payments infrastructure.

As discussed in a 2006 OECD paper[14] on Competition and Regulation in Retail Banking, "the costs of investment to achieve number portability may be great."

"In fact, prudential authorities have suggested that the costs are likely prohibitively expensive compared to the likely benefits," the OECD paper says. "One pragmatic concern with number portability is that, in many countries, the current number system provides features that help identify customer banks inherently through the structure of the number. Losing this ability to identify banks and branches could potentially increase the difficulty of identifying the correct bank in questions relating to transaction errors."

Credit reporting
One factor the OECD paper identified as a barrier to switching is privacy laws that restrict exchange of credit information. "More stringent privacy protection may therefore imply that customers become captive to their existing banks. Other financial institutions may have insufficient information to make competitive loan offers," the OECD paper says.

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[13] Personal current accounts in the UK – An OFT market study. July 2008. UK Office of Fair Trading.
[14] *OECD Policy Roundtables – Competition and Regulation in Retail Banking 2006*.

The UK OFT study also touches on this issue, noting that since January 2007 most of the main UK banks have been sharing positive as well as negative credit data through credit bureaux. “This reduces the difference in the information held about the customer by the current and potential future banks,” the OFT says. “One of the major banks told us that this might increase the level of credit that the new bank would be willing to offer if the consumer were creditworthy.”

Abacus supports introduction of a better credit reporting model in Australia to promote responsible lending and increased competition. However, we note that the introduction of more comprehensive credit reporting is a tool to enhance lending assessments and it should not be seen as a substitute for responsible lending practices.

Conclusion

Abacus believes competition in the banking and non-banking sectors, particularly home lending, can be enhanced by:

- Policy measures, including a reduction in tax on deposits, to increase and secure the funding options for a wide spectrum of lenders;
- Easing the regulatory compliance burden on highly regulated, responsible lenders; and
- Promoting the prudential standing and competitive potential of mutual ADIs.

Please don’t hesitate to contact me on 02 8299 9053 or Luke Lawler on 02 6232 6666 to discuss any aspect of this submission.

Yours sincerely,

Mark Degotardi

MARK DEGOTARDI
Head of Public Affairs

Australian Credit Unions & Mutual Building Societies

FACTS AND FIGURES AT A GLANCE

SIZE	
Numbers	> 130 credit unions as at July 2008. > 9 mutual building societies as at July 2008
Consolidation	> Ongoing consolidation but assets growing consistently, contributing to strength and enhancing capacity to provide full range of banking services to the personal sector
Assets and Growth	> Credit unions' on-balance sheet assets reached $42bn in March 2008, growing by 10% annually while mutual building societies' on-balance sheet assets amounted to $17bn in the same period. > Collectively, mutual ADIs rank behind the five major banks and Suncorp-Metway.
Market Share	> Hold approximately 5.4% of the retail lending market and 12% of household deposits
Population Penetration	> Service approximately 4.6 million members - close to 1 in 4 of the total population > Population penetration (members as a proportion of the total population) highest in SA (36%), Tasmania (36%), and NSW (28%)
STRENGTH	
Customer Satisfaction	> 87.6% of credit unions' and 85.6% of building societies members were satisfied in May 2008. > Consistently out-perform banks (majors 70.2% and total banks 73.1% in May 2008)
Competitive Advantages	> Mutual structure means no tension between servicing customers and external shareholders – customers (members) are the owners > Extremely strong member goodwill and trust > Better placed than most to satisfy key needs of consumers, that is: - moral leadership - sense of community / belonging - honesty and integrity - guidance - simplicity > Niche marketers - servicing both geographical and industry communities > Competitively priced > Close to half of all members outside capital cities, approx. one quarter of which are in secondary cities and three quarters in rural areas
PRODUCTS	
Product Range	> Majority offer a full range of personal banking services; smaller ones provide more limited facilities
Product Usage	> More members now using their CU as their main financial institution – 14.2% had six or more products with their CU in June 2001; by June 2007 this was up to 18.7% (i.e., a 30% increase in 6 years)

Abacus
Australian Mutuals

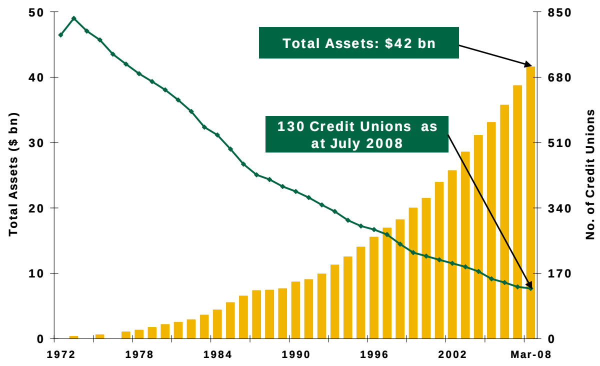
Mutual ADIs

There are now 130 credit unions and 9 mutual building societies in Australia – ranging in size from the very small through to the largest credit union with over $6bn in funds under management.

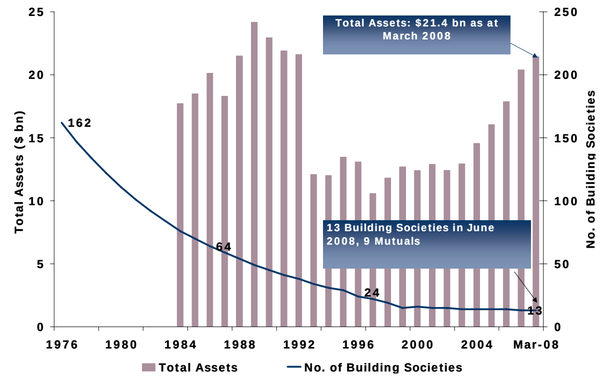
Credit unions and mutual building societies are customer owned – operating under the mutual principles of one member one vote, an equal share in the say of the credit union, and with the purpose of member and community benefit at the forefront of their operations.

Consolidation and Growth

Our industry has undergone significant consolidation over the past 30 years – driven by market pressures, regulatory costs and other demands leading to a search for greater scale.



(Source: APRA, Abacus)

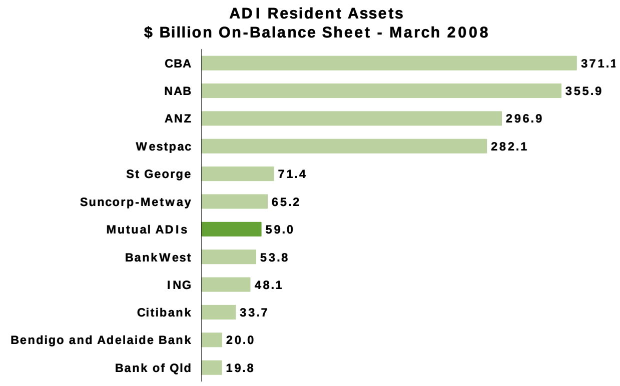


(Source: APRA)

Notwithstanding these pressures, the industry has continued to grow and prosper with total assets under management increasing to around $59 billion collectively at March 2008.

Market Share

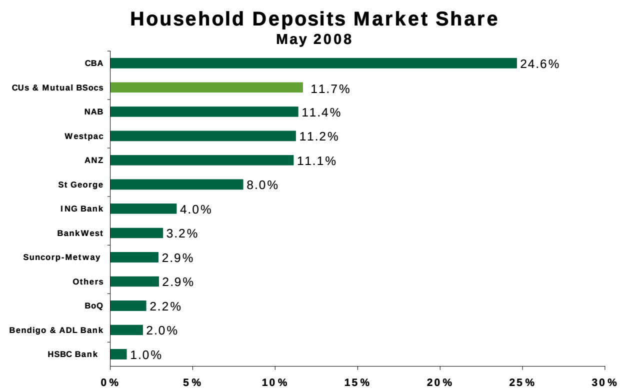
Collectively, credit unions and mutual building societies sit behind the five major banks and Suncorp-Metway in terms of total on-balance sheet assets.



(Source: APRA)

Mutual ADIs hold approximately 5.4% of the retail lending market.

As a group, credit unions and mutual building societies are the second largest deposit gathering force after CBA, reaching almost 12.0% market share.



(Source: APRA, RBA)

Products and Services

Majority of the credit unions and mutual building societies offer a full range of personal banking services with smaller ones providing more limited facilities.

Despite being smaller players, on average, credit unions and mutual building societies charge less than the major banks in interest rates as shown in the following table.

Australian Credit Unions & Mutual Building Societies

Standard Variable Home Loan Rates by Lenders

14-Jul-08	**Average**
Big Five	9.56%
Credit Unions	8.97%
Building Societies	9.09%

(Source: Cannex)

Similarly, many of them offer attractive deposit rates. The following tables show the top 10 rankings by Cannex on saving investment accounts and 90-day term deposits as 25 June 2008.

Savings Investment Accounts

Rank	Company	Account Name	Top Nominal Interest %
1	BankWest	Regular Saver	10.00
2	Suncorp Direct	FlexiRate 12mth Notice	8.70
3	**Greater Building Society**	**Bonus Saver Account**	**8.00**
3	**Hunter United Credit Un**	**XLR8 Savings Account**	**8.00**
3	**Newcastle Permanent**	**Education Savings Acc**	**8.00**
6	Westpac	Reward Saver	7.40
7	StGeorge Qld/Vic/Tas/WA	Power Saver Account	6.70
8	nab	Smart Reward Saver	6.61
9	Lifeplan Funds Managemnt	Bonus Cash Account S30	6.50
10	**Dnister Ukrainian Credit**	**Bonus Saver**	**6.25**

(Source: Cannex, 18 July 2008)

Term Deposits

Term: 90 days, $10,000		
Rank	**Company Name**	**Nominal**
1	**Railways Credit Union**	**8.50**
2	**Lifeplan Funds Managemnt**	**8.40**
3	**United Credit Union**	**8.35**
4	Elders Rural Bank	8.25
5	BankWest	8.20
5	Capricornia CU	8.20
5	Heritage Building Soc	8.20
8	Bank of Queensland	8.15
8	Goldman Sachs JBWere	8.15
8	Home Building Society	8.15
8	myState Financial	8.15

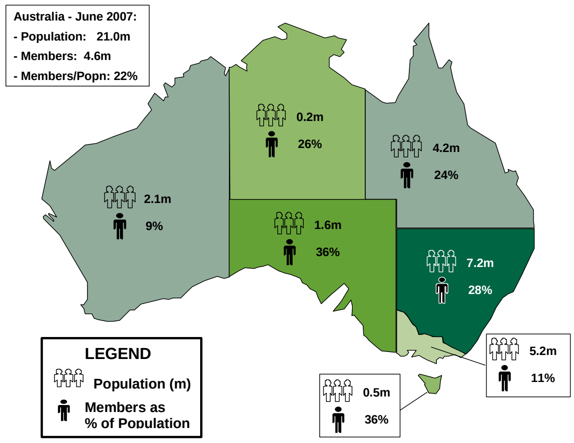
(Source: Cannex, 18 July 2008)

Both rankings revealed that credit unions and mutual building societies are well positioned in this space.

In May 2008, 87.6% of credit unions' and 85.6% of building societies members were satisfied, consistently out-perform banks (majors 70.2% and total banks 73.1% in May 2008).

Regional Representation

As at June 2007, Australia's total population was 21 million, of which 4.6 million (21%) were credit union or mutual building society members.



(Source: MMD)

Population penetration (members as a proportion of the total population) highest in SA (36%), Tasmania (36%), and NSW (28%)