



TRADITIONAL CREDIT UNION LIMITED

**SUPPLEMENTARY SUBMISSION TO THE JOINT SELECT
COMMITTEE ENQUIRY INTO BANKING AND FINANCIAL
SERVICES IN RURAL REGIONAL AND REMOTE AREAS.**

It is understood some Committee members have sought an explanation for Traditional Credit Union's high fee level and level of interest rates for loans.

Charging of Fees

Traditional Credit Union Limited ("TCU") is an Approved Deposit Taking Institution ("ADI") under the Banking Act, and is so subject to the APRA Prudential Standards. It is a public company under the *Corporations Act* and so comes under requirements under that legislation, including the *Financial Services Reform Act*.

The branches that TCU operates are in some of the most remote and hard to get to communities of Australia. The attached map shows some of the locations.

It is noted that many branches do not have road access and those that do for the most part have poor road access.

We operate in traditional Aboriginal communities where cultural factors are paramount.

The fees charged represent our costs of operation in a challenging environment. . This point is made to our members and I believe that whilst many do not like the higher fees they realize that they represent the costs of operating in remote communities. They also appreciate having TCU there.

TCU made a profit of \$151,342 in the last financial year and a loss of \$22,467 in the previous financial year. It is important to where possible make a small profit to enable the funds to be transferred into reserves to meet contingencies. The relevant regulatory agencies, as well as Government agencies that occasionally provide funding for various projects under partnership arrangements also prefer that we remain in a profit situation.

Directors of TCU are also aware of their responsibilities under the Corporations Act in relation to solvency of the company.

Cost containment is a continual issue for TCU. Directors, for instance, are all voluntary and only receive expenses and a small traveling allowance if they travel to Board Meetings.

Attempts are made to limit costs where possible, particularly in discretionary areas.

JSC Inquiry – Supplementary Submission from Traditional Credit Union Limited

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I think our costs can be categorized as follows;

Costs of staffing, including staffing remote branches and supporting these staff

TCU currently has 42 staff. Of these 26 are community members who operate our branches or agencies in remote communities. Head Office has 14 staff, five of them indigenous. It is anticipated that six Head Office staff members spend a majority of their time dealing with branch issues, and others spend a significant amount of time. This includes dealing with operational problems including computers going down, liaising about issues at branches, dealing with staffing issues at branches, making sure cash gets there and ensuring proper controls are in place and followed, as well as other issues such as dealing with curses on branches and supporting staff who are being humbugged.

This is a continual and necessary process.

A major project has been training of staff with most staff at Remote Branches and Head Office receiving qualification in Certificate 2 or Higher in Financial Services. New staff (and there is a high turnover of staff for various reasons) need on the job training in areas such as working the financial system and following procedures.

This training is essential to the effective operation of TCU, and for the staff concerned.

Whilst we have received STEP and New Apprenticeship Funding, and schemes have been utilized for the costs of trainers, the costs of employing staff for the training area and running the courses (e.g. bringing staff in from communities for training) has been calculated to exceed the amount paid in training funding.

Overall, however our salary and on costs, which include Superannuation, Workers Compensation and Payroll tax are high. They represent the major part of our expenses (\$835,847 in the last financial year).

Other costs which reflect the cost of operating in remote communities.

It is very costly to operate in remote communities. Major costs include

- **Communications Charges**

TCU branches utilize ISDN or VSAT Satellite systems for real time data transmission in our branches. We continually have to telephone our branches or they contact Head Office. A typical monthly phone bill would be \$8,500.

There are no viable service providers to Telstra, and limited discounts are available.

There are also additional costs of servicing equipment. Whilst we try to have procedures in place to limit costs (e.g. fixing problems remotely) there are times consultants have to go to communities – this can be expensive.

- **Sending Money to Communities**

In line with insurance requirements procedures have to be strict. This involves security staff picking up cash from the bank, taking it to TCU, where it is counted, packed into minisafes and then taken to the airport, again by security staff. It is then transported by aircraft to the branches, where it is picked up by an authorised person. The cost of cash transport is around \$5,000 per month.

- **Travel**

Costs of travel to branches are significant. Whilst the TCU vehicle is used where possible it is frequently necessary to fly. An airfare to our most remote branch, Lajamanu is \$700 and to Numbulwar \$500. Frequent trips are required for training, to relieve in branches where staff are absent or for other reasons. Sometimes it is necessary to charter, and the cost there can be \$2,500.

Travel costs mean that it normally costs \$4,000 or more to hold a Board Meeting.

These costs cannot be avoided and it is arguable there should be more visits by Head Office staff to communities.

A more "mainstream" organisation would not incur these costs.

- **Rent**

We pay rent on most branches, and must meet accommodation costs for relieving staff,

Costs imposed by the Regulatory System

These costs are significant and are perhaps a necessary part of our operations -- if we did not incur them we would not be operating as we would not be meeting the requirements of APRA in particular. On the other hand it could be argued that there are some areas where the regulatory workload has unnecessarily increased costs.

- **Audit**

This is done by a major firm in line with the requirements under the Corporations Act and APRA Standards. Fees of around \$20,000 are incurred. These are considered quite reasonable.

- **Preparation of Accounts/ Internal Audit**

APRA has required monthly reporting of key data (not a requirement for all credit unions). Like other credit unions we have to submit a 95 page APRA form called the D2A. All ADIs have to submit the form. It is difficult to complete and requires reporting on items such a foreign exchange which TCU does not deal in.

We also are subject to quarterly independent internal audit in line with APRA requirements. The cost of this, and of monthly reporting and D2A amounts to around \$40,000 per annum. Simplification of the D2A and other requirements could save us \$20,000 per annum.

- **Insurance**

Our General Insurance policy must cover risks under the prudential standards and reflects the costs, and risks of operating in remote communities. It is accordingly quite high. Our Workers Compensation premium is also quite significant, reflecting numbers of staff

- **Provision for Bad and Doubtful Debts**

Based on APRA's assessment of risk factors in our loan book they have made us have a higher than average provision for bad and doubtful debts. This has an additional cost of \$50,000, and must be allowed for. This impacts on our ability to reduce interest on loans.

Like other credit unions we must comply with a host of other legislation such as the *Privacy Act*, *Consumer Credit Code* and *Financial Transactions Reports Act*. There is also employment legislation, taxation legislation, and legislation relating to acquittal of other grants. I am responsible, as General Manager for compliance in these areas. Meeting requirements can be sometimes time consuming.

Like other credit unions we are trying to come to terms with the *Financial Services Reform Act*. This is a particularly difficult task, with possible additional costs incurred if legal advice had to be sought.

The time spent on this work gives me less time for other tasks, increasing the workload for other staff.

General Operating Costs

As a credit union we have to operate using fairly standard banking software and systems, particularly if we wish our members to have access the EFT-POS and ATM system with their cards. The costs of running these systems are fairly standard and must be met if we are continue to operate.

In particular, banks and other institutions charge interchange fees when our members use their ATMs. These fees must be passed on to our members, increasing the fees they pay.

Our fees levels are one of the matters monitored by APRA and we would need to consult with them before we reduce fees.

It is clear therefore that we have something of a balancing act and, without additional funding or an increase in economies of scale we have a limited capacity to reduce fees and still operate with any degree of effectiveness.

This tight budget situation means we have limited scope to incur fees in areas such as branch expansion, marketing, and for our community education programme.

TCU would welcome additional funding or other assistance for these initiatives and would be happy to enter into partnership arrangements with Government or other organisations.

If we were able to get other income sources, to enable us to meet our costs of operation we would have no hesitation in reducing our fees.

We have looked at adjusting fees.

However, to simply reduce our fees would see us not meeting APRA requirements and cause major financial problems for the organisation.

Loans

The interest rate on personal loans is 14.95%. This reflects the risk involved and cannot be changed without the agreement of APRA. It also reflects the impact on the profit and loss of the additional provision for bad and doubtful debts set by APRA after a review of the repayment performance (or lack thereof) of some members.

In practice on a \$5,000 loan a member would normally, over a five year term be required to pay an affordable \$55 per fortnight, with no penalty for easterly repayment.

There is a requirement to make the scheme pay for itself.

Business loans are at the ATSI rate of 6.6%.

We would be interested in any scheme where we could on lend funds from another institution to members.

Conclusion

It should not be ignored that in many ways TCU is a major success story in delivering culturally appropriate, over the counter financial services, including loans, to a large number of people in remote communities, using the best technology available, and at the same time providing training and employment to a significant number of Indigenous people in these communities.

The costs reflect the very challenging environment that TCU operates in, and the Board and Management are keen for any assistance that could help alleviate those costs, and carry out other initiatives for the benefit of our members and other persons in these communities.

I would be happy to address the Committee further on these issues.

Barbara Bradshaw
General Manager
Traditional Credit Union Limited

Email bvbradshaw@bigpond.com, ph 0889280777, fax 0889280788

Traditional Credit Union Limited

12 - Newbuckles
13 - Malakpala

NORTHERN TERRITORY LOCATION MAP

