



18 July 2003

Mr Peter Hallahan
The Secretary
Senate Economics Legislation Committee
Room SG.64
Parliament House
CANBERRA ACT 2600
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FINANCIAL SERVICES REFORM AMENDMENT BILL 2003

Dear Mr Hallahan

I am pleased to advise the Economics Legislation Committee that Credit Union Services Corporation (Australia) Limited (CUSCAL) supports the Financial Services Reform Amendment Bill 2003 and urges the Senate to pass the bill without delay.

CUSCAL represents 164 of Australia's 187 credit unions.

Credit unions play an essential role in Australia's financial services sector, providing banking and financial services to 3.5 million members, and offering a genuine and community based alternative to the major banks.

Total assets in the credit union sector currently stand at \$27.4 billion.

Credit unions, collectively, are the sixth largest deposit taking force in Australia.

Credit unions are mutual entities, owned by their customers. Credit unions offer a full range of banking and financial services through more than 1000 branches and agencies, internet and telephone banking, ATMs and EFTPOS.

Credit union products include investment and savings accounts, personal loans and home loans, and credit cards and debit cards. Many credit unions also offer investment advice, financial planning services, managed funds and insurance products.

Credit unions, along with banks and building societies, are Authorised Deposit-taking Institutions (ADIs) supervised by the Australian Prudential Regulation Authority (APRA) under the Commonwealth *Banking Act 1959*.

Credit union depositors are well protected by the prudential oversight of APRA and the conduct and disclosure provisions of the Credit Union Code of Practice and the EFT Code of Conduct.

The Financial Services Reform Act (FSRA) adds a significant new layer of regulation for credit unions and greatly increases the regulatory compliance burden on the business of deposit-taking. Credit union members, as owners of the credit union, bear this cost.

The Explanatory Memorandum to the FSR Amendment Bill 2003 says:

“While the FSR Act provides a broad framework for financial services regulation, the diverse and complex nature of the financial services industry means that the general legislation does not always appropriately ‘fit’ in relation to all segments of the industry and situation.”

This observation is particularly relevant to deposits and ADIs. The Parliamentary Joint Committee on Corporations and Financial Services has recommended no less than *three times* that deposits and related non-cash payment products be exempted from FSR regulation.

The fact that deposits are capital guaranteed and well understood by consumers is recognised in the Act by a reduction in some of the disclosure and conduct requirements for ‘basic deposit products’ (BDP).

However, the current BDP definition is too narrow.

The FSR Amendment Bill 2003 changes the BDP definition to ensure that it covers fixed term deposits as well as at-call deposits.

This is critically important to credit unions because credit unions rely heavily on retail deposits to fund lending. Half of the funds deposited with credit unions are in term deposits. Of total credit union deposits of \$23.5 billion, \$11.4 billion is in term deposits.

The ‘sticky’ nature of term deposits aids the matching process involved with managing the assets and liabilities on ADI balance sheets. Smaller ADIs depend much more on retail funding than large ADIs.

CUSCAL has always understood that it was the Government’s policy intention to capture fixed term deposits within the BDP definition. This is because a typical fixed term deposit is even simpler and more easily understood than a typical transaction account.

Consumers interested in term deposits do not need elaborate advice from qualified financial planners and reams of disclosure documentation.

Deposit products that do not fit the BDP definition are subject to the full weight of the FSR regime. This potentially means that a credit union teller talking to a member about a “Christmas Club” account or a three-month fixed term deposit would be required to:

- have a financial planner’s diploma; and
- give the member a Product Disclosure Statement, a Financial Services Guide and a personalised Statement Of Advice.

Such an outcome is clearly not realistic or commercial.

Contrast this scenario with the virtually unregulated status of mortgage brokers and promoters of ‘get-rich-quick’ real estate schemes.

Unless the BDP definition is changed, ADIs are faced with the choice of continuing to offer their current fixed term deposit products under these unrealistic conditions or changing all their deposit products to fit the current BDP definition.

If all deposit products are at-call, and hence more volatile, there is likely to be a significant increase in early redemptions of term deposits, creating a challenging liquidity management task for ADIs and lower interest rates on these products.

Consumers will not applaud such an outcome.

In practice, credit unions generally allow members early redemption of term deposits but the decision is at the discretion of the credit union subject to the relevant terms and conditions. The option of early redemption is not promoted as feature of term deposits.

The attractive features of fixed term deposits are their simplicity and the certainty of the term and return. They are suited to credit union members, particularly older members, who don’t want to risk their funds on equities or other types of investments and who want a guaranteed return.

Unless the disproportionate compliance burden on fixed term deposits is eased, some of these products will be withdrawn from the marketplace, meaning *less* choice for consumers.

We strongly urge the Committee to support changing the definition of ‘basic deposit product’ to capture all fixed term deposits of up to five years. This will ensure that depositors continue to have access to a broad range of deposit products without any reduction in the consumer protection objectives of the FSRA.

The proposed change to the BDP definition does not diminish the FSRA obligations on credit unions to:

- ensure that staff providing advice are competent and that their advice is suitable;
- disclose any remuneration, including commission, or other benefits that might reasonably be expected to be capable of influencing the advice; and
- provide a Product Disclosure Statement.

Please don't hesitate to contact me on 02 6232 6666 or 0418 213 025 to discuss any aspect of this submission.

Yours sincerely

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