



**Abacus**  
Australian Mutuals

Association of Building Societies and Credit Unions

31 August 2007

The Secretary  
Senate Standing Committee on Economics  
PO Box 6100  
Parliament House  
CANBERRA ACT 2600

By email: [economics@aph.gov.au](mailto:economics@aph.gov.au)

Dear Mr Hallahan

**Inquiry into Australian Securities and Investments Commission (Fair Bank and Credit Card Fees) Amendment Bill 2007**

Thank you for the opportunity to provide comments to the Senate Economics Committee inquiry into the Australian Securities and Investment Commission (Fair Bank and Credit Card Fees) Amendment Bill 2007.

*Abacus – Australian Mutuals* is the industry association for all Australian credit unions and mutual building societies. Abacus draws together the representation activities of the former Credit Union Industry Association (part of Cuscal Ltd), National Credit Union Association and Australian Association of Permanent Building Societies.

Abacus is pleased to have the opportunity to update the Committee on our membership, our sector's approach to fees and charges, and our sector's comments on the Bill.

***Credit Unions and Mutual Building Societies in Australia***

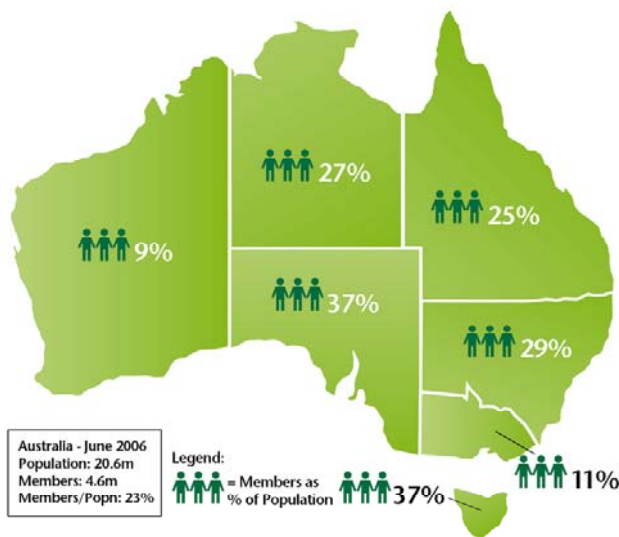
Australia's 150 credit unions and mutual building societies are mutual organisations – owned by their customers, with a focus on meeting member needs and delivering high quality services to members.

Credit unions and building societies provide banking services to 4.5 million Australians and are Authorised Deposit-taking Institutions (ADIs) subject to the *Banking Act 1959* and Australian Financial Services Licensees subject to the *Corporations Act 2001*. Credit unions and mutual building societies also comply with general financial services regulation, fair trading laws, the Uniform Consumer Credit Code, the EFT Code of Conduct and as appropriate other self-regulatory codes such as the Credit Union Code of Practice.

Collectively, credit unions and mutual building societies have combined assets of over \$60 billion. Credit unions and mutual building societies are represented across Australia, with a strong presence in regional and country communities.

Credit unions and mutual building societies also enjoy extremely high customer satisfaction ratings. For example, the July 2007 Roy Morgan banking consumer satisfaction survey showed credit unions and building societies with satisfaction ratings of 87.9%, almost 20% higher than the customer satisfaction rating for the four major banks of 70.3%.

*Credit Unions and mutual building societies (continued):*



- Credit unions and mutual building societies offer a full range of financial and banking services to their members;
- Credit unions and mutual building societies meet a full range of regulatory standards applying to banking institutions – including APRA’s prudential standards and supervision requirements, the requirements of company law as per the Corporations Act, FSR obligations in their capacity as Australian Financial Services Licensees;
- Our industry is diverse – ranging from nationally operating credit unions, to large regional building societies, and local community credit unions.

As customer-owned companies, credit unions and mutual building societies are focused on member needs and customer satisfaction without the tensions of maximising returns for external shareholders.

Abacus member institutions believe that the mutual structure provides a powerful platform for meeting the needs of members, delivering on customer service, and investing and working with communities.

***Fees and Charges - Overview***

Abacus is well aware of community concern about fees and charges in the banking sector. In particular, Abacus is playing close attention to the debate about “exception fees” incurred by consumers where they have a dishonoured, failed or late payment or transaction.

Credit unions and mutual building societies have a strong commitment to fairness in fees and charges to members. As prudentially regulated institutions, it is important for credit unions and mutual building societies to maintain diversified non-interest income revenue as part of their operations. Mutual Authorised Deposit-taking Institutions (ADIs), however, do not seek to drive high profits from fees and charges levied on members.

Each credit union and mutual building society in Australia, while sharing common principles of mutuality and member-focus, operates as an independent entity with its own Board, regulatory responsibilities and business strategies. As a result, Australia’s 150 credit unions and mutual building societies each have different fee and interest rate policies and product offerings, aiming to suit the market and community in which they operate.

At an industry level, mutual ADIs have a strong record in applying fair fees and charges to member transactions. Abacus notes that:

- Most credit unions and mutual building societies do not charge any personal account keeping fees to their members;
- 2/3 of all credit union members pay no fees at all to their credit union;
- Credit unions and mutual building societies communicate with members via terms and conditions, newsletters, statements and websites to promote ways to avoid fees and charges and to encourage members to use their accounts wisely to avoid incurring fees;
- Abacus industry analysis has shown that if credit unions were to adopt the \$5 “all you can eat” account keeping fee approach used by several major banks, 80% of credit union members would pay more in fees.

Credit unions and mutual building societies offer a range of highly competitive deposit products, with some features noted below:

- All of the full-service deposit accounts for low transactors ranked five stars by CANNEX in 2006 are from credit unions or mutual building societies.
- The three cheapest full service high transactor accounts are from mutual ADIs.
- Credit unions and mutual building societies also offer online a range of savings and children's accounts with low or no fees, reflecting member needs.

### ***Fees & Charges – Exception Fees***

Credit unions and mutual building societies are aware of consumer group and policy concerns about the level and range of 'exception' fees and charges in the banking sector.

On average, credit unions and mutual building societies charge less than our competitors for exception fee categories. Abacus estimates that on average our industry's listed fees for direct debit transactions are some \$12 lower than the averages of our largest competitors. Similarly, average unauthorised overdraft fees are between \$10 and \$20 lower than averages for our largest competitors. For some transactions (eg inward cheque dishonour fees) Abacus analysis shows our industry averages are higher than our competitors – note, however, this is explained by wholesale fees paid by mutual ADIs, see below. While industry averages are noted above, there are 150 different fee policies, rebating and grace periods applying across the mutual ADI sector so a range of approaches apply.

Reflecting their focus on member-benefit and helping members to avoid fees, credit unions and mutual building societies also adopt consumer-friendly approaches such as:

- Grace periods for members on overdraft fees – for example, many mutuals do not charge for small overdrafts, and several will apply a grace period before incurring a fee;
- Limits on repeat exception fees for the one event;
- Clear notification to members of fees including tips on how to avoid them, and a range of no-cost balance checking options including remote access options;
- Regular review of fees across various channels including exception fees;
- The availability of very competitive pre-approved small overdrafts for accounts;
- A focus on limiting fees and charges to benefit members.

### ***Different fee approaches by Mutual ADIs***

Examples include NSW Teachers Credit Union, which allows members a 10 day grace period for overdrawn accounts, with contact to members to encourage them to address their balance within this period, and a policy of not charging fees for small overdrafts. Savings & Loans Credit Union does not charge members for overdrawn account amounts until the account is overdrawn for more than 20 days. Many credit unions will also provide the first instance of late payment on credit cards without charge, providing an opportunity for members to be contacted about ways to monitor their payments due.

Credit unions and mutual building societies do not make large profits from exception fees, and do not seek to drive high profits from fees overall<sup>1</sup>. Credit unions and mutual building societies seek overall to maximise value to their members through better interest rates, service and minimising fees. There is no imperative for mutual banking institutions to make high profits to service the needs of external shareholders, although as ADIs they are required for prudential reasons and to fund growth and investment to operate profitably.

Credit unions and mutual building societies, as smaller financial institutions, connect to the payments system through a range of other parties – for example, some major banks (for cheque services) and wholesale providers (for direct entry and other services). This provides smaller ADIs with access to economies of scale and therefore more cost-effective access to the payments system and a full range of services for members, and supports competition and choice in the market.

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<sup>1</sup> As an example, Abacus estimates that exception fees account for less than 4% of total non-interest income for mutual ADIs. Recent APRA statistics show that for the year to December 2006, Australian banks made a net profit of \$20.3 billion. In the year to March 2007 all credit unions collectively made a net profit of \$305.6 million.

Wholesale suppliers levy a range of charges on credit unions and building societies for these services. Exception fees levied on consumers generally are a reflection of wholesale charges. For inward cheque dishonour fees, for example, mutual ADIs will be passing on the charge levied by their wholesale cheque service provider. In general, as reflected in the low average fees, credit unions and mutual building societies work to keep the retail fees levied on members as low as possible. As per normal commercial practice, the agreements that support the wholesale connection arrangements are longer term contracts, providing certainty of access, and negotiated on an aggregated basis to enable credit unions and building societies to access scale advantages. In some instances mutual ADIs will be absorbing part or all of the wholesale charge in setting their fees.

Given our sector's offerings, high customer satisfaction and the competition and choice that mutual ADIs deliver to the market, any proposed regulatory interventions must take care to consider unintended competitive and customer service impacts in relation to our industry. Blunt measures targeting one part of retail banking services could have a range of unintended impacts: reducing access, or increasing the overall access cost, for smaller financial institutions to payments services; requiring more cost-based price increases in other areas affecting a greater number of members; and reducing the ability of individual institutions to set fees, rates and services with a view to member benefit overall.

### ***Abacus response to the Consumer Fair Fees Campaign***

Abacus has met with CHOICE (the Australian Consumers' Association) and the Consumer Action Law Centre in response to concerns raised through their "Fairer Fees" campaign. We have encouraged mutual ADIs to review fees, in particular exception fees, to ensure they reflect a sound business case and member impact. Several Abacus members have adjusted some fees as a result of these reviews and further changes are expected. Abacus is also working with members to encourage clear disclosure and regular contact with members on all fees and charges. Abacus is liaising with wholesale providers to encourage review of charges relating to exception fees. Ongoing review, effective disclosure and competition will exert downward pressure on exception fees in the banking sector generally.

### ***Abacus Comments on the Bill***

Abacus does not support the proposals contained in the Bill. As promoters of competition and choice in the marketplace, mutual ADIs do not favour price setting via legislation as a response to market issues. Such approaches can have unintended competitive impacts and disadvantage consumers overall. As one example, the proposed measures do not take account of the role of smaller institutions and their use of wholesale providers. Our sector's views can be summarised as below:

- Mutual ADIs do not support legislative pricing restrictions in principle;
- The proposed approach does not recognise the commercial and access arrangements on which smaller financial institutions rely in competing with larger institutions;
- If, as a principle, fees are to be based on costs, consumers would potentially face significant increases in fees across account channels in retail banking;
- Disclosure, market review and competition will meet the policy objectives of the Bill.

Regulation that has the effect of price setting would have the unintended consequence of disproportionately impacting the smallest and most consumer-friendly organisations in the banking sector.

Please do not hesitate to contact me on [lpetschler@abacus.org.au](mailto:lpetschler@abacus.org.au) or (02) 8299 9046 to discuss any aspect of this submission.

Yours sincerely,



**LOUISE PETSCHLER**  
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