



# Submission to the Senate Economics References Committee

## Matters relating to credit card interest rates

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**10 August 2015**

100%  
customer  
owned

## Our key messages

- **bankmecu** has a history of responsible banking practices. 100% no marketing guarantee of credit card limit increases was applied before legislation made this mandatory.
- **bankmecu** applies payments to the highest interest bearing transactions first in order to reduce interest rate burden. This process was implemented before legislation made this mandatory. Additionally, no excess interest is charged to consumers in default.
- **bankmecu** has a record of offering competitive low interest rate credit cards relative to the market. See appendix B for comparison.
- **bankmecu** has a proportionately small portfolio of customers with a credit card. This product is offered in response to a customer need, pricing is set to cover costs not to drive profit.
- Credit card default risk and fraud risk is higher. Unsecured debt is the bulk of write offs. As onus and liability has shifted to banks this is factored into pricing.
- All product pricing is reviewed on an ongoing basis including after any Reserve Bank of Australia cash rate movement. **bankmecu** has a track record of reducing credit card interest rates following a cash rate reduction, and vice versa. See appendix B for comparison.
- Credit card cost comparisons need to reflect yield which considers fees, rewards and interest free days.
- Enforcement of regulated responsible lending laws have increased costs which increase cost to consumer.
- There is sufficient choice in the market, bankmecu request that the committee promote the alternative offering of values based banks.
- Competition has a focus on extras rather than purely the interest rate. This creates ambiguity and choice for the consumer.
- **bankmecu** provides financial literacy tools to increase the prosperity of our customers and to reduce risk for the bank.

## Our recommendations

1. That the inquiry recommend the use of responsible lending practices. The National Consumer Credit Protection law requires prominent minimum payments warnings to appear on customer statements outlining how much interest will be paid over the period and how long it takes to pay. Additionally, voluntary measures implemented are:
  - Overdue notices sent to customers one business day after a default or transactions going over the limit;
  - Restrictions of limits for dormant credit card facilities, and assessment of financial position upon reactivating any credit card from dormant status;
  - Consistent behaviour of accounts re-entering into arrears and transaction over the limit will trigger a review.

All of these measures, involuntary and voluntary, increase costs by producing and sending letters, and making follow up calls.

2. That the inquiry support the use of Positive Credit Reporting as widely used internationally. Traditionally Australia's banks use the Negative Credit Reporting where bad credit ratings are used in conjunction with information provided by the consumer. Positive Credit Reporting indicates all outstanding consumer credit limits which will greatly reduce the number of undisclosed debts. Additionally, this may positively impact the consumer by reducing the risk for banks when providing unsecured lending, and create an opportunity to screen for a reduction in interest rates and fees based on customer credit risk score.
3. That the inquiry recommend the development of a comparison tool incorporating real costs of credit card to the consumer by utilising loyalty programs, fees and interest free days.
4. That the inquiry recommend the promotion of the alternative offering of values based banks via financial literacy.
5. That the inquiry support the five strategic priorities identified by the ASIC review of Australia's National Financial Literacy Strategy, and encourage the Australian Government to ensure the national curriculum addresses the need for students to be more financially literate – please reference our submission to the Financial System Inquiry included from pg 15 of this document for further detail.

## About bankmecu

**bankmecu** is a new kind of bank in Australia—a customer owned bank. This means we put our customers first because they also own the bank.

### What we do

We provide our customers with value for money, responsible banking, and insurance and financial planning solutions, as well as superior service. And we do it in a profitable and sustainable way.

### Why we matter

We are different from investor owned banks because we are customer centric. So, we answer to a different philosophy, and we align our values with our stakeholders' expectations of sustainable economic wellbeing.

We genuinely seek to integrate a responsible approach into everything that we do, from our organisational culture, to our operations and our innovative products and services. This approach means ensuring we meet our stakeholders' expectations of our economic, social and environmental performance. It also means we look to protect, sustain and enhance the financial, human and natural capital needed to develop **bankmecu** into the future.

Yet, we don't see responsible banking as a balancing act—we don't trade off financial discipline and profitability to achieve strong community and environmental outcomes. We run a lean and efficient business, and we have strong profits as a result.

Our decision making can take in a time horizon longer than a quarterly or half yearly profit reporting period. And, being customer owned, we can focus on delivering value without taking excessive risks or looking for ever-increasing returns for investor shareholders. In other words, we can create mutual prosperity, including profit, because we generate positive community and environmental outcomes rather than thinking of them as incidental.

### What we envision ...

We want to be Australia's leading customer owned responsible bank. As a challenger brand the Bank continues to articulate a values based approach to banking.

This submission reflects our objective of advocating our values in a relevant way for a modern business environment and economy. In particular, it highlights our concern that global environmental and economic issues mean Australia needs a broader measure of 'progress' and prosperity than economic growth alone.

### ... and seeing it in action

For us, the key to enacting our vision is to unify our business strategy and our values.

An example is our Community Investment Program, whereby we use our profitability to create value for our community sector customers and the communities they serve. Under the program, we allocate up to 4 per cent of annual after tax profit to invest in community related initiatives. Over the years, this program has invested in science, education, social housing, community resilience and sustainability. It has also helped develop the financial and governance capabilities of many not-for-profit organisations serving our nation.

Read more about us in appendix A.

*Note:* **bankmecu** is a member of the Business Council of Co-operatives and Mutuals, the Customer Owned Banking Association and the Australian Banking Association.

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# Our role, importance and performance in the Australian economy

## Our history and structure

Financial co-operatives were first established in 19th century Europe, where people decided to pool their money together for everyone's benefit. Since then, this model has spread all over the world, with hundreds of millions of people choosing to bank with a co-operative.

A co-operative is defined as an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. Co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.

These principles can be found in our own history, which dates back to 1957 and the formation of CSIRO Co-operative Credit Society Ltd. Many thousands of people have since contributed to the success of our bank. We are also the outcome of many credit unions and financial co-operatives merging over the decades in order to better serve customers.

We are a public company limited by shares but not listed on the stock exchange. Our customers are shareholders and owners of the bank. Our customers have an equal say in how the bank is run including voting rights at the annual general meeting – with one share and one vote each.

Our customers are glad to know our profits are reinvested in the bank to provide fairer fees, better interest rates, and the products and services that our customers expect. We are Australian owned and importantly our profits remain in Australia.

Like all Australian banks, we're regulated by the Australian Prudential Regulation Authority. We operate under the Corporations Act and are registered with the Australian Securities and Investments Commission.

## A responsible approach to banking

Much has changed since 1957, but not our commitment to customer owned responsible banking. It is the core of who we are.

As Australia's first 100% customer owned bank, we see the business of banking a little differently from our competitors. And we believe this is a good thing for the Australian economy, because our difference provides diversity and increases competition in a way that builds a stronger banking system, and more resilient communities and economies.

Not being bound by the demands of external investors, we act in the best long term interests of our customers. Indeed, our ownership structure allows our customers to shape the way we bank. As a result, we're open and transparent about our decisions.

Our role is to create mutual prosperity for our customers in the form of positive economic, personal, social, environmental and cultural outcomes. Our winning aspiration is to be Australia's leading customer owned responsible bank and have the predominant market share of the socially aware customer.

## Our performance

**bankmecu** has a history of strong financial performance. In the 2014 financial year, the bank continued to meet the challenge of operating in a low interest rate environment—delivering an after-tax profit of \$25.5 million. This profit allowed us to grow customer owned reserves to \$377.2 million. In April 2015 we shared our 2015 half year results with our customers, having unaudited net profit after-tax of \$13.23 million as at 31 December 2014. We also exceeded our annualised growth targets, with deposits growing by 9.51 per cent and loans by 8.86 per cent.

The following table indicates the bank's operating efficiency. Our return on assets in 2014 exceeded the domestic banking industry average, and we remain committed to continually achieving our cost-to-income ratio.

Key performance indicator	Domestic bank industry average @ Mar 2014	Actual 2014	Actual 2013	Actual 2012	Actual 2011	Actual 2010	Annual change % 2014 to 2013
Cost to income ratio (%)	<b>63.9</b>	59.7	58.3	57.7	56.7	66.1	2.4
Return on average assets (%)	<b>0.5</b>	0.8	0.9	1.0	1.1	0.9	-11.1
Asset to staff ratio (\$m)	-	10.3	10.0	9.6	8.5	7.8	3.0
Net profit before tax (\$m)	-	34.8	35.7	37.0	37.9	25.7	-2.5
Net profit after tax (\$m)	-	25.5	26.3	27.0	27.5	18.2	-3.0
Return on equity (%)	<b>7.9</b>	7.1	7.8	9.1	10.1	7.8	-9.0

Note: Industry average provided in the APRA Quarterly Report Table 6e Other domestic banks performance ratios.

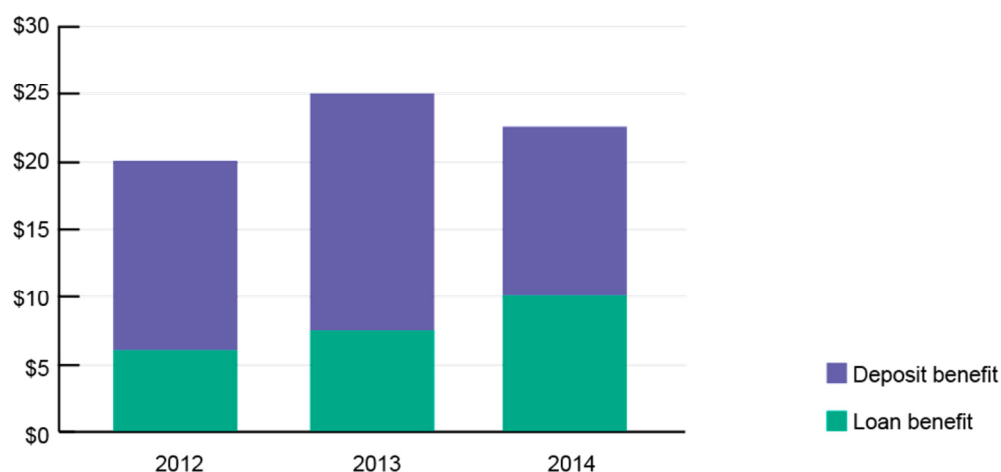
And we have more good news:

- In 2014 the bank's assets grew by 6.1 per cent to \$3.2 billion, which was just short of average domestic banking industry growth of 6.7 per cent.
- Customers recognised our focus on service, giving us an overall satisfaction rating of 90. Our Net Promoter Score—which is a measure of customers who are likely to recommend the bank—increased to +38 per cent in 2014 from +16 per cent in the previous year. This result was strong against the average score -15.5 per cent for Australia's major banks  
<http://engagedmarketing.com.au/australian-banking-nps-results/>

- Delivering this level of service requires a team of dedicated and professional people. And staff satisfaction increased from 84 per cent to 86 per cent in 2014. Staff commitment to the bank also rose (up 1 percentage point to 87 per cent).
- In 2014 our 2013 Corporate Report won the Australasian Reporting Awards Special Award for Online Reporting – Private. We also won a Cannex Canstar Award for Best Online Banking – Customer Owned Banks. And, most recently, *Money Magazine* awarded us 2015 Socially Responsible Mutual of the Year.

**bankmecu** aims to combine a responsible approach to banking with a competitive pricing proposition. Each year, we commission Canstar Cannex (an independent financial services research group) to quantify the benefit to our customers from our competitive interest rates and fees. Specifically, Canstar Cannex compared pricing on our deposits, loans and transactions at 30 June 2014 with the average pricing offered by the four major banks. It valued our customer benefit at \$22.7 million, which means each customer was an average \$180 better off banking with us. Borrowers were better off by \$12.4 million and depositors were better off by \$10.3 million. This return was on top of the wealth that we created for customers by growing our capital reserves.

### Annual customer benefit (\$m)



### Commitment to the customer owned banking and co-operative sector

**bankmecu** takes the principle of co-operation seriously. We are active members of the Customer Owned Banking Association (COBA) and the Business Council of Co-operatives and Mutuals (BCCM). To COBA, our commitment goes beyond our long membership, with one of our executive team holding a board seat. This involvement is part of how we contribute to the customer owned banking sector and encourage its success.

In 2012, the United Nations International Year of the Co-operative, **bankmecu** worked with other co-operatives and mutuals to celebrate our collective history and future in Australia. Along with others, we saw the need for a powerful voice to represent the co-operative and mutual models of enterprise in the business community. As such, we became a founding member of the BCCM and continue to hold a seat on its board.

# Our operation in the Australian economy

Structure and broader purpose is the strongest point of difference of co-operative and mutually owned business. The operation of **bankmecu** is driven by our structure—that is, that our customers are also our shareholders.

## Employment

**bankmecu** customers in Victoria's Latrobe Valley represent what we believe is the strongest concentration of co-operative members anywhere in Australia. As a direct result of this level of support, we have located our National Call Centre and National Lending Centre in this region. We also have three branches there (Morwell, Moe and Traralgon).

This employment represents a strong commitment to the economy in the Latrobe Valley and Australia overall. It is also evidence of the way in which co-operative and mutual business plays an active role in the local economies from which it derives support. While many other companies are moving their technical and call centre jobs offshore, **bankmecu** continues to keep all its employees based in Australia.

## Community investment

Through our Community Investment Program, we make investments on behalf of our customers to help develop more resilient communities and a healthy planet. In the true spirit of our co-operative structure, we make those investments back into the communities from which we derive our support.

We allocate up to 4 per cent of our annual after-tax profits to the program. The objective is to support activities that help solve economic, social and environmental problems. In this way, we aim to make a positive, measurable and sustainable difference to society. We do this because we believe communities that have economic, social and environmental capability are better positioned to draw on their own resources to become sustainable.

**bankmecu** is committed to working with governments, the non-government sector, business and the community to support the sustainable development of the communities with whom we are linked.



## Case study: bankmecu's Conservation Landbank

In 2008 **bankmecu** purchased the first of five properties in the West Wimmera region of Victoria to create our Conservation Landbank—a world first for a financial institution. By buying and re-vegetating non-productive farm land, we offset the greenhouse gas emissions generated by the bank's operations and the cars that we finance.

How does it work?

- **Car loans**—customers borrow other customers savings to buy cars, but these cars release carbon emissions, so we plant trees on the conservation reserve to absorb carbon and balance out these emissions during the life of the loan.
- **New home construction loans**—customers borrow other customers savings to build new homes. We recognise that habitat is cleared to make way for these homes, so we protect an equivalent amount of habitat in the conservation reserve to balance out that loss.

By signing a conservation covenant over these properties, we have created an environmental asset that will be protected in perpetuity, and is owned by our customers.

### Community housing

Our stakeholder engagement identified affordable housing as an important issue for customers. As a result, we have provided considerable support to the community housing sector. This support is evidence of how the bank actively seeks to understand key issues relevant to its customers and then use the economic resources, which are owned by customers, to address a social and economic issue.

First, we have worked with the community housing sector to provide finance to increase the supply of safe, secure and affordable housing to those in need. To date we have provided over \$100 million. One organisation that we support is Women Property Initiatives (WPI). It provides long term safe and secure housing for women and their children, of whom many are escaping domestic violence. Since 2009 **bankmecu** has provided over \$3 million in funding to WPI, which has helped 110 women and children find affordable rental housing. As put by WPI CEO Jeanette Large, 'our relationship with bankmecu will continue to be an important ingredient in achieving this growth and helping women and children get back on their feet'.

Second, funding via our Community Investment Program has increased the professional development of the community housing sector. Our support has included funding of a report on the social value of community housing in Australia. The report used the Social Return on Investment method to work out a value: it found Australia's community houses and units generate over \$176 million worth of social benefit each year. Because profit is not our sole motivation, we can help develop new markets through this type of capacity building.

## Commitment to reconciliation

Our vision for reconciliation is to contribute to the wellbeing of Australia's First Peoples. We want to increase awareness of reconciliation, while building our own capacity and that of Aboriginal and Torres Strait Islander organisations and communities.

We developed our Reconciliation Action Plan (RAP) in co-operation with Reconciliation Australia. The RAP identifies clear actions and realistic targets to guide us in helping to 'close the gap'. Specifically, we are working to improve cultural awareness, build capacity and empower individuals through our traineeship and Community Investment Program, while providing responsible banking products.

As an example, we have initiated funding for scholarships for Aboriginal and Torres Strait Islanders to be involved in community leadership programs in the communities in which we operate. These scholarships provide powerful outcomes for the recipients and other participants in the leadership programs. One participant explained 'until I spent some time with (scholarship recipient) I was naïve to the needs of the Indigenous community and superficial about the cause and effect'.

## Mergers

The customer owned banking sector has been consolidating for some decades. As highlighted in the most recent KPGM Mutual Industry Review (2014), 82 per cent of mutuals expect fewer than 80 mutuals to exist in five years.

**bankmecu** has been an active participant in mergers over the past 20 years. Mergers have been a chance to increase the scale of the bank, so we can deliver responsible banking to more Australians. Our provision of finance to the community housing sector is an example of the impact of scale. As a smaller organisation, our capacity to invest in affordable housing would have been limited.

### Case study: merger with Fitzroy and Carlton Community Credit Co-op

**bankmecu** merged with Fitzroy and Carlton Community Credit Co-op in 2013. Before the merger, the Credit Co-op had served the financially excluded people in its local community for 36 years. It grew out of the Action Resource Centre Project under the Brotherhood of St Laurence in 1977, which provided savings and loan services for people on low incomes.

Merging with **bankmecu** was an opportunity to expand the service and products that the co-op could offer its customers. And the bank was able to provide ongoing employment for all the co-op's customer service staff.

When the co-op re-opened as **bankmecu**, the bank offered a community finance referral program. This referral program is a partnership with Foresters Community Finance to offer small loans and support services to customers who need access to personal finance. It aims to enhance these customers' financial wellbeing and support their goals.

## Our investment strategy

Investing our customers' money responsibly represents an opportunity to create customer value, build stronger communities, enhance the environment and differentiate us from our competitors. In a recent survey, our customers identified that the responsible investing of their money is the issue of most importance to them.

We primarily invest our customer's money by lending customers' savings to other customers in the form of a loan. Investing excess liquid funds and capital is also a key strategy for the bank. Regardless of our investment strategy, it is always responsible:

1. We strive to ensure our customers' funds are invested in loans that provide benefits to people, society or the environment.
2. We lend to persons or organisations only if we can determine they have the capacity to repay the loan.
3. We market all our loan products in a responsible manner.
4. We offer support to our customers facing financial hardship.
5. We assist our customers to enhance their financial literacy.

As part of our responsible strategy, we can also commit that:

- We have not made any loans to the fossil fuel industry.
- We have not and will not make any loans to finance coal and coal seam gas projects.

## Our public commitments and reporting

Our public commitments guide our business strategic planning. These commitments include being the only Australian member of the Global Alliance for Banking on Values and being a signatory to the UN Global Compact.

We publish our performance against our strategic plan in our annual corporate report. The corporate report clearly and simply explains how we create, distribute and protect shared value.

Our approach to reporting has been recognised with a number of awards, including:

- Winner of the 64th Australasian Reporting Awards Specialist Category: Online Reporting Award 2014
- Winner of the 63rd Australasian Reporting Awards Specialist Category: Online Reporting Award and the inaugural Special Award for Integrated Reporting 2013
- Winner of the 61st Australasian Reporting Award – Special Category: Sustainability 2011
- Shortlisting for an Association of Chartered Certified Accountants (ACCA) Sustainability Report Award 2011
- Finalist of the 60th Australasian Reporting Award – Special Category: Sustainability 2010

- Winner of the 59th Australasian Reporting Award – Special Category: Sustainability 2009
- Shortlisting for an Association of Chartered Certified Accountants (ACCA) Sustainability Report Award 2009
- Joint winner of the ACCA Continued High Quality Sustainability Reporting Award 2007
- Ranking among Global Reporters 2006 top 50 leading sustainability reporters in the world
- Winner of the ACCA Best Sustainability Report 2005.

## Appendix A: More about bankmecu

We are one of Australia's strongest customer owned banks. That success has grown from a conservative and more responsible approach to banking, and from our customers' strong support. We listen to our customers, and their attitudes and values help guide how we decide to invest their money in the community, environment and more responsible banking products and services.

We offer our customers:

- exemplary personal service
- better interest rates and lower fees. Since 2003, our customers have been collectively better off banking with us than with the major four banks (Cannex report 2003–12).
- a more responsible approach to banking. People want to bank with someone they can trust with their money and trust to act ethically.
- banking products and services that help our customers achieve their financial goals while taking steps to live more sustainably.

In 2015 *Money Magazine* recognised us Socially Responsible Mutual of the Year.

### We live our values

- We treat our customers with dignity and respect.
- We value, encourage and support our employees.
- We operate ethically and with integrity.
- We apply prudent financial and business practices.
- We are economically, environmentally and socially responsible.

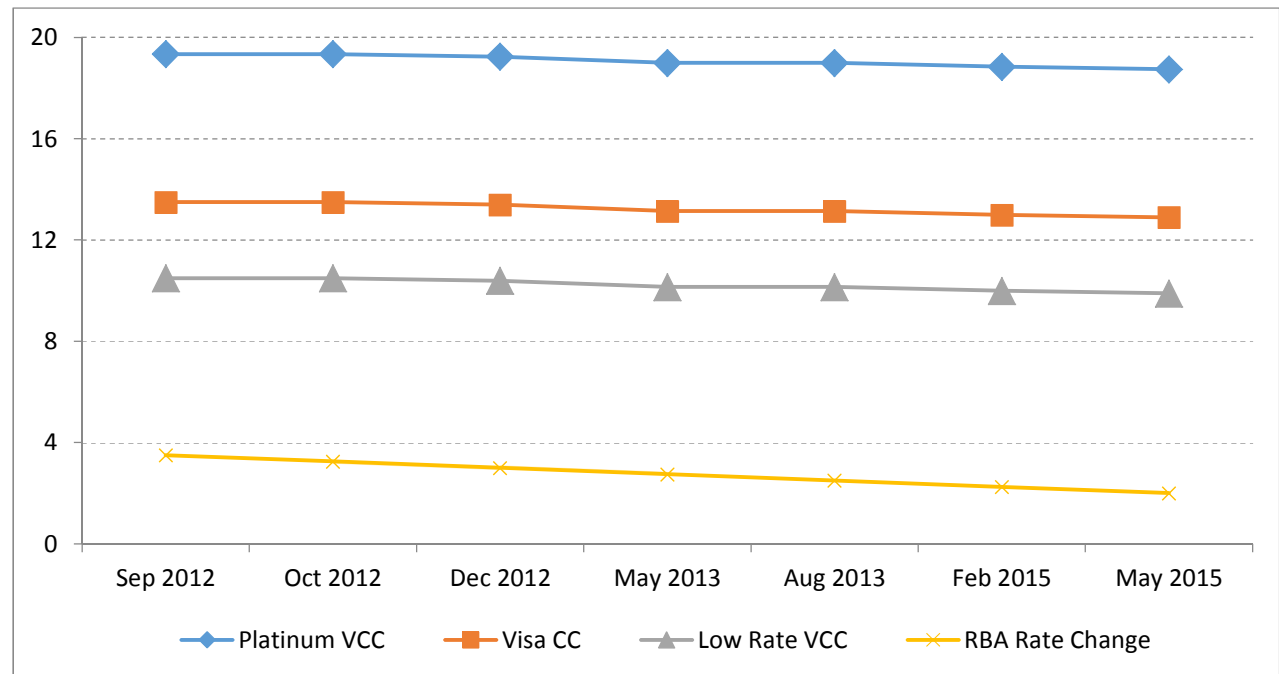
### We also uphold the co-operative principles of mutuality

**bankmecu** proudly supports the following principles of mutuality, shared by all financial co-operatives around the world:

- |                               |                                   |
|-------------------------------|-----------------------------------|
| • open and voluntary accounts | • building of financial stability |
| • democratic control          | • ongoing education               |
| • non-discrimination          | • cooperation among co-operatives |
| • service to customers        | • social responsibility.          |

## Appendix B: Reference Data

### RBA Movement vs bankmecu credit card movement



### Credit Card interest rate comparison as at 10th August 2015

Credit Card Type	bankmecu	NAB	CBA	ANZ	Westpac
Low Rate Visa Credit Card	9.89%	13.99%	13.49%	13.49%	13.49%
Standard Credit Card (55 days interest free)	12.89%	19.74%	19.79%	18.79%	19.84%
Premium Credit Card	18.74%	19.99%	20.24%	19.99%	20.24%

## Appendix C: Further reading

- **bankmecu's** *Submission to the Financial System Inquiry* (2014). (attached)



# Submission to the Financial System Inquiry

**31 March 2014**

## Our key message

Banking in Australia in the future needs to be:

- **transparent**, to inform and protect customers
- **diverse**, to be innovative and resilient, to enable new business models, and to tackle social and economic issues beyond profitability
- **sustainable**, to have products and services that account for changing economies, markets, customer needs and technologies, as well as the importance of protecting natural capital.

Customer owned financial institutions already uphold these principles. And we look to the Australian Government to encourage the principles in practice across the whole banking sector.

## Our recommendations at a glance

### Our recommendations for transparent banking

1. That the inquiry support the five strategic priorities identified by the ASIC review of Australia's National Financial Literacy Strategy, and encourage the Australian Government to ensure the national curriculum addresses the need for students to be more financially literate.
2. That the inquiry recommend the Australian Government require all bank sub-brand advertising to reveal the owner bank, with the owner bank name and sub-brand shown with equal prominence.
3. That the inquiry recommend the Australian Government and its agencies bank only with authorised deposit taking institutions that produce an integrated corporate report and/or sustainability report.

### Our recommendations for diverse banking

4. That the inquiry consider determining a growth target for non-major market share that would underpin a diverse and resilient banking market. At the least, the Australian Government should have a policy position on the fifth pillar banking sector.
5. That the inquiry recommend the Australian Government establish, as a priority, policy that encourages a diversity of banking institutions.
6. That the inquiry recommend the Australian Government commit to a policy position of competitive neutrality.

*Continued*



## Our recommendations at a glance ... continued

### **Our recommendations for sustainable banking**

7. That the inquiry recommend the Australian Government give a 40 per cent tax concession on all interest earning products, in line with the Henry Review findings.
8. That the inquiry recommend a review of superannuation fund and bond regulations to encourage investment in bonds.
9. That the inquiry consider how to establish a more liquid and active domestic bond market. In particular, it should recommend the Australian Government establish policy that stimulates the bond markets, and consider the regulatory and disclosure barriers to that stimulation.
10. That the inquiry recommend the Australian Government require APRA, ASIC and the ATO to facilitate the development of a Common Equity Tier 1 non-voting capital instrument that pays a franked coupon, for issue by customer owned financial institutions.
11. That the inquiry recommend the Australian Government consider allowing customer owned financial institutions to offer a frankable and deductible debt deposit product.

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But our decision making can take in a time horizon longer than a quarterly or half yearly profit reporting period. And, being customer owned, we can focus on delivering value without taking excessive risks or looking for ever-increasing returns for investor shareholders. In other words, we can create shared value, including profit, because we generate positive community and environmental outcomes rather than thinking of them as incidental.

## What we envision ...

We want to be the pre-eminent customer owned banking brand in Australia. We want to be considered a challenger brand representing thought leadership in responsible banking. So, we are always looking to articulate what we stand for.

This submission reflects our objective of advocating our values in a relevant way for a modern banking environment. In particular, it highlights our concern that global environmental and economic issues mean Australia needs a broader measure of 'progress' and prosperity than economic growth alone.

### ... and seeing it in action

For us, the key to enacting our vision is to unify our business strategy and our values.

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Read more about us in appendix A.

Note: **bankmecu** is a member of the Australian Bankers' Association and the Customer Owned Banking Association. We contributed to their respective inquiry submissions, and also that of the regional banks. All of these submissions are referenced here.

*Enquiries about this submission can be directed to: Fiona Nixon (03) 9854 3350 or [fiona.nixon@bankmecu.com.au](mailto:fiona.nixon@bankmecu.com.au)*

# Principles for banking in Australia

Post the financial crisis, the economic mood is cautious but keen for renewal. It is a good time to set the principles that underpin how the financial system moves forward in Australia: while the banking sector has weathered the global financial crisis robustly, and has contributed significantly to Australians' wealth, it needs to embrace innovation and opportunities. In this submission, we offer a values based premise to underpin how banks take on this challenge.

In summary, we consider the following three principles can strengthen banks' relationships with all their stakeholders (shareholders, customers, community and the environment) for both economic and social prosperity:

**Principle 1. Banks need to be transparent.**

**Principle 2. The banking sector needs to be diverse.**

**Principle 3. The banking sector needs to be sustainable.**

These principles can underpin public policy, regulatory frameworks and banks' own management. And they can inject Australia's financial system with greater competition, innovation, resilience and self-governance, but also a productive vision.

## What we know about these principles in action

The three principles are already intrinsic to the operations of customer owned financial institutions around the world. And they are not exclusive of the profit motives of investor owned banking institutions.

They allow a triple bottom line approach. As noted by the Global Alliance for Banking on Values (GABV, p. 11), sustainable banks focus 'simultaneously on people, planet and prosperity ... They don't just avoid doing harm, they actively use finance to do good'.

These principles work only if they are embedded in every level of a bank. In other words, principles are useless unless banks use them to define their cultures and put them to work in their planning, policy making, operations, incentive programs, performance reporting and self-evaluation. They have to be a priority consideration for a bank's every decision. They operate in tandem, not alone. They are three proponents of the one outcome: user focused, responsible, profitable and sustainable banking.

They are a self-regulating tool, because they promote the protection of consumers.

## Do they help banks meet user needs? Yes!

**A banking sector that is transparent, diverse and sustainable is necessarily an inclusive one.** To uphold its principles, it has to engage with its users at both a local and macro level. It does so in three main ways.

First, it serves the real economy—the householders that spend and save, and the businesses that provide goods and services. And the closer a bank connects to its community, the better it can respond to that community's immediate economic needs and risks. In other words, the financial system has a role in serving the 'real economy' and not just the financial markets (GABV, p. 2).

Second, it can underpin broader economic stability and growth. All banks share the objective of contributing to the country's economic health via their lending, investing and advising. But their value assumptions will drive how they choose to generate their profit, and whether they use fiscal management approaches that are more or less risky to their stakeholders. So, while banks are 'a critical enabler of economic activity and growth', and 'the current system works well and ... it is imperative that its strengths are preserved' (Australian Bankers' Association 2014, p. 11), consumers would benefit even more if transparency, diversity and sustainability propelled the success of these economic functions. In other words, Australia needs to do more than preserve the strengths and benefits of the current financial system: it needs to fine tune them in a way that better engages the system with its users and the future economy.

Third, it can help address social and environmental issues too. Australia faces many changes that already are affecting our economy: the ageing of the Australian population, the growing significance of the Asian region, the growing impact of digital technology, climate change impacts, and the increasing scarcity and cost of natural resources (Australian Bankers' Association 2014, p. 15). These influences require a response from Australia's government and financial sector, in terms of policy, regulation and business strategy.

As an example, banks can do more than maximise profit; they can help people solve problems by giving them access to finance. Financial inclusion is a worthy goal of a democratic and developed society, but many banks treat it as a low priority. To illustrate, consider the financial difficulty faced by people with a disability, and their carers. Disability presents individuals and families with enormous financial challenges, and yet the financial services sector offers them little support by way of education or truly accessible services and products.

Community finance, micro credit (emergency credit, for example), specialised mortgage products, social investments, specialist financial advice and planning—these are all potential strategies for broadening a bank's inclusion of all its customers. They can support the government's goals for the National Disability Insurance Scheme. And they can help address the bleak picture noted in the recent report *Financial inclusion*:

*Around 4 million people in Australia live with disability, and nearly 5.5 million people aged 15 to 64 years are primary carers (Social Policy Research Centre 2005). The impact of these circumstances across a lifetime is stark—people with disability and their carers are among the poorest in our community ... It is important to begin to understand and disseminate what people living in such circumstances know and*

*need. While some aspects of financial inclusion, such as income support and, increasingly, workforce participation, are at least discussed, the un-level playing field in the financial services sector is not. The financial services sector needs to be informed by lived experience, to design services and products ... which can open up opportunities from which people with disability and their families are currently excluded. (Drew 2013)*

The inquiry may consider recommending the Australian Government fund research into the current state of financial inclusion, the possibilities for encouraging greater inclusion, and the outcomes of doing so. This example shows how the inquiry, while looking to improve regulatory structures and policy to help banks better fund the economy, may also look to improve banks' contribution to Australia's social and environmental future.

# How we want to see the principles in action

Here we outline how the Australian Government and banks in Australia can practise the three principles by embedding them in the operations of the financial system.

## Transparency in banking

Transparency is critical to banks. It helps protect consumers, and it drives an inclusive approach to governance. We consider improved transparency is required in three areas:

1. better educating and informing consumers
2. identifying banks' ownership of sub-brands
3. banks' reporting on their sustainability.

*The education of consumers* is already a government priority, as evidenced by the National Financial Literacy Strategy. In the 2013 ASIC review of that strategy, consultation revealed the following important messages:

- improving financial literacy is an ongoing process, and achieving positive behaviour change requires a multi-pronged approach
- consumers' financial decision making reflects cultural factors as well as structural ones
- the state of financial literacy in Australia links to broader frameworks for consumer protection, the regulation of financial markets, and social and financial inclusion
- Australians need help to prepare better for retirement and make sound financial decisions
- changes to the *Privacy Act 1988* and the introduction of the National Disability Insurance Scheme have implications for financial literacy
- financial literacy initiatives interact with many federal and state policies, including education, consumer affairs, financial services and social welfare (ASIC 2013, pp. 4–6).

We agree with these messages. And we consider the Australian compulsory superannuation scheme makes it particularly important that all Australians receive basic financial education to help them plan for retirement.

We thus support the five strategic priorities identified by the review for formulating the 2014–17 national financial literacy strategy (ASIC 2013, pp. 5–6):

1. Educate the next generation through the formal education system.
2. Increase the use of trustworthy sources of information, tools and resources.
3. Deliver quality targeted guidance and support.
4. Strengthen coordination and partnerships.
5. Improve research, measurement and evaluation.

An outcome of these priorities could be, for example, government funding for a focused cooperative research centre. This thinking is already underway at RMIT University, which is working to establish a Cooperative Research Centre focused on finding cross-sectorial and sustainable solutions to financial exclusion (RMIT University 2014, slide1).

## Recommendation 1

That the inquiry support the five strategic priorities identified by the ASIC review of Australia's National Financial Literacy Strategy, and encourage the Australian Government to ensure the national curriculum addresses the need for students to be more financially literate.

*The transparency of sub-brands* is a concern of consumers. An Australian survey (Essential Research 2012) found around half of the respondents perceive the existence of smaller banks makes no or little difference to consumer choice. But the majority supported bank ownership disclosure. That is, consumers perceive limited competition in the banking sector, and they understand many smaller banks are not real options but merely sub-brands. Regardless, they want to know more about who owns the big and small banks—who is managing Australians' money?

In addition there is a gap in consumer education regarding the operation of the Government's \$250,000 deposit guarantee through the Financial Claims Scheme (FCS) as it relates to ADIs with wholly-owned subsidiaries operating as sub-brands. The FCS guarantees deposits up to \$250,000 per account holder, per ADI, which means that consumers with deposits adding up to more than \$250,000 spread across sub-brands (For example, with Westpac and its St George, BankSA, RAMS and Bank of Melbourne brands) are not provided with the same level of depositor protection that would apply if their funds were deposited across different ADIs. Concern arises from the fact that there is no evidence of this being clearly disclosed to consumers by the relevant banks nor readily available or clearly stated on consumer or regulators' websites.

## Recommendation 2

That the inquiry recommend the Australian Government require all bank sub-brand advertising to reveal the owner bank, with the owner bank name and sub-brand shown with equal prominence.

*Banks' reporting on their sustainability* should interest consumers and government, helping both make banking choices. What business leaders choose to measure and report reflects their corporate values, governance culture and strategic direction. So, integrated corporate reporting or sustainability reporting can signal how a bank prioritises the economic, social, environmental and governance aspects of its operations and the actions of its customers.

Globally, investors and communities are calling for greater corporate transparency, encouraging companies to measure and report a more holistic picture of how they create shareholder value—so-called integrated reporting, or IR. The IR approach recognises companies operate as a complex interdependence of economic, social, cultural and environmental inputs, performance and impacts. And that an emphasis on all outcomes, not just profit, actually reinforces business strategies.

Ultimately, IR is about improved and more complete communication that helps a bank forge stronger connections with its customers. At **bankmecu**, from our first sustainability report in 2004, we've worked each year to report more cohesively on the multiple dimensions of the business. In 2012 we produced our first integrated report (winner of two categories at the Australasian Reporting Awards), which required significantly shifting our thinking and breaking down internal silos. We think the Australian government should support this shift in



all banks, encouraging the effort by banking with those authorised deposit taking institutions (ADIs) that produce an annual integrated corporate or sustainability report.

### Recommendation 3

That the inquiry recommend the Australian Government and its agencies bank only with authorised deposit taking institutions that produce an integrated corporate report and/or sustainability report.

### Diversity in banking

The case for a diverse banking sector is overwhelming. A report prepared for the Customer Owned Banking Association researched the downstream impacts of a highly concentrated banking sector on economic stability and consumer welfare:

*The downsides are that the assets of the three largest banks constitute over 150% of gross domestic product, making Australia's economy one of the most beholden to the stability of its big banks of any G20 country. ... this concentration and lack of competition in retail banking appears to have led to dominant pricing with the big 4 banks making up half of the 8 most profitable banks in the world. (Dave Grace & Associates 2014, pp. 1–2)*

Similarly, a Centre for Financial and Management Studies (UK) report argued:

*The case for diversity and plurality in the financial system is greater than the case for any particular model, and in the absence of a perfect model, the best option is to encourage diversity, which has generic advantages in terms of firstly enhanced competition (and hence consumer welfare) that derives through different business models, and secondly systemic stability where, for example, one of the factors that lay behind the 2007-08 credit crunch was that individual institutions had been diversifying and while this might be thought to reduce risk, it does not if all are diversifying in the same way, which instead makes the system as a whole become less diversified. (Michie & Oughton 2013, pp. 8–9)*

And it noted government acknowledgement of diversity's importance:

*Recent research on financial stability and economic welfare has highlighted the role of 'diversity' in promoting stability and improving the competitiveness of the financial sector. This research has been influential in shaping policy; for example, in 2010 the UK Government specified the promotion of diversity in financial services as a policy objective. (Michie & Oughton 2013, Abstract)*

Yet, just as the report found the United Kingdom is 'no closer to creating the conditions of diversity that have been identified as constituting an important component of avoiding a repeat of the credit crunch' (Michie & Oughton 2013, Abstract), so too is meaningful diversity absent from Australia.

While a large number of ADIs and banking products are available in the Australian market, we have an oligopoly that holds approximately 80 per cent of banking assets and an 85 per cent share of the home loan market, and enjoys a significant funding advantage due to its 'too big to fail' status. The major banks dictate the market share available to the rest of the market; if they wished, they could exercise market power supported by their artificially low

cost of funds to further squeeze small banks. This situation may be compounded by prudential regulators' concern that 'too much competition, too fast, could destabilise otherwise big, healthy banks', when in fact 'there is little data to support this perception' (OECD 2011, quoted in Dave Grace & Associates 2014, p. 8).

This perception issue is complex. Public policy is often called to balance stability and competition, yet the current focus on stability has led to a sectorial concentration that is risking banks' efficiency. In other words, the real trade-off from overemphasising stability is not so much the reduced competition as the knock-on effect on efficiency. The regional banks' submission (Pegasus 2014, p. 2) also noted this issue, and argued such problematic outcomes of reduced competition will grow unless smaller ADIs can present a better competitive constraint on the large banks:

*The basic elements exist that signal competition problems: high market concentration, higher barriers to entry and large sunk costs, high profitability by institutions with the largest market share, high margins and high price-to-book ratios. ... While there is no doubt as to the financial viability of the smaller ADIs, including the regional banks, the question is whether they can be sufficiently robust to represent a real competitive constraint on the largest banks. If they are not strengthened, then the competitive situation will decline further. Addressing costs is a key issue.* (Pegasus 2014, p. 69)

The call to address costs is part of multiple changes needed to produce a level playing field for the different tiers of banking. Government policy and regulation must value those different tiers, which enhance consumer benefits by offering different products and services, and contributing to a competitive market that is necessarily more efficient. So, alongside ensuring stability, the government must create a regulatory environment that encourages banks to be efficient, innovative and focused on their end users. Again, the regional banks' submission supported this approach (Pegasus 2014, pp. 2–4).

This change of mindset cannot occur unless the Australian Government makes it a priority (for example, guiding APRA to apply its mandate in a more balanced way) and does not mainly focus on stability. Without a re-direction of government policy, Australia depends almost entirely on the major banks for that stability (and at the expense of other desirable objectives for the financial system). Further, ironically, evidence suggests cooperative banks are more stable than commercial banks. The International Monetary Fund found:

*... cooperative banks in advanced economies and emerging markets have higher z-scores than commercial banks and (to a smaller extent) savings banks, suggesting that cooperative banks are more stable. This finding, perhaps somewhat surprising at first, is due to the much lower volatility of the cooperative banks' returns, which more than offsets their relatively lower profitability and capitalization. We suggest that this observed lower variability of returns, and therefore the higher z-scores, may be caused by the fact that cooperative banks in normal times pass on most of their returns to customers, but are also able to recoup that surplus in weaker times.* (Heese & Čihák 2007, p. 18)

Research for the Customer Owned Banking Association had similar findings:

*As has been shown through multiple academic papers, by the International Monetary Fund and actual experience from other countries during the global financial crisis, mutual ADIs have less volatile income than commercial banks and are more stable. We tested this in the Australian market using APRA data for the past 9 years and found similar results to other markets. (Dave Grace & Associates 2014, p. 2)*

#### Recommendation 4

That the inquiry consider determining a growth target for non-major market share that would underpin a diverse and resilient banking market. At the least, the Australian Government should have a policy position on the fifth pillar banking sector.

Importantly, we do not consider the market power that comes from scale is the real problem. Rather, the major banks' protected status creates competitive distortions in the market, and moral hazard (as discussed in the regional banks' submission to this inquiry: Pegasus Economics 2014, section 5).

The majors can access funding on preferential terms because funding providers (bond markets and wholesale funder) understand the Australian Government will not allow the banks' insolvency. Further, as noted above, the majors enjoy higher credit ratings because rating agencies give more weight to those banks' 'too big to fail' status. Further, advance modelling techniques—known as the Internal Ratings-Based (IRB) approach—used by larger banks allow them to hold lower levels of capital against risk weighted assets, relative to smaller and customer owned financial institutions hold.

We accept we have to compete, to run our own race, and in no way do we look to handicap the major banks. We do not suggest cutting off the normal competitive advantages that come with scale. Neither are we looking for regulatory exemptions that favour small banks. Rather, we seek competitive neutrality as far as possible. Such a position includes the government committing to make policy that encourages negative neutrality. As noted in research conducted for the Customer Owned Banking Association:

*While some tension exists between stability and competition, it's not an either or choice. ... In most countries, and Australia, mutual ADIs ... are unlikely to grow fast enough to destabilise the banking sector should competitively neutral policies, similar to other G20 countries, come into effect. The intention is not to claim one governance model is superior (or inferior) over another, but rather to **enable space for multiple models so as to aid economic stability and consumer value** [our emphasis]. (Dave Grace & Associates 2014, p. 21)*

Certainly, the customer owned model is a valuable, proven global banking option: it delivers competition, it offers choice to consumers, and it is market leading in servicing and satisfying customers. It thus deserves to be a priority consideration as this inquiry examines the effectiveness of the current regulatory regime. In particular, we agree with the Customer Owned Banking Association's call to achieve competitive neutrality by interrogating the implicit government guarantee to the big banks, the failure of the company tax and dividend imputation system to accommodate the customer owned banking model, and the prudential regulatory settings that artificially 'tilt the playing field in favour of the largest ADIs' (Customer Owned Banking Association 2014, pp. 5–6).

## Recommendation 5

That the inquiry recommend the Australian Government establish, as a priority, policy that encourages a diversity of banking institutions.

## Recommendation 6

That the inquiry recommend the Australian Government commit to a policy position of competitive neutrality.

In summary, the regional banks' (Pegasus 2014) and Customer Owned Banking Association's submissions to this inquiry canvas how to deal with the market consequences of the 'too big to fail' scenario. We support their endeavours to prioritise the issue, and we seek for the government (via APRA) to look beyond the current default position to acknowledge the value of diversity in banking.

## Sustainability in banking

The Australia Institute summarised the outlook for Australia and globally:

*As we begin the 21st century, new dilemmas confront our society and our planet. Unprecedented levels of consumption co-exist with extreme poverty. Through new technology we are more connected than we have ever been, yet civic engagement is declining. Environmental neglect continues despite heightened ecological awareness. A better balance is urgently needed.* (Richardson 2012, Introduction)

This is not a scenario that will allow banks to ignore how they ensure their longevity or how they contribute to the broader sustainability of Australia's population and environment. We thus talk here about sustainability in three senses: (1) the ability of banks, and smaller banks in particular, to access funding; (2) the ability of banking products and services to be useful and relevant in the long term by adjusting to changing economies, markets, customer needs and technologies, and (3) banks' attempts to offset the environmental impact of their operations and the actions of their customers.

In terms of banks' access of funding and the functionality of their products and services, we consider the following areas are problematic:

1. the taxation of deposits
2. the significant exposure of superannuation funds to equity investments
3. the small and relatively illiquid retail bond market and secondary market
4. access to Tier 1 capital, and the inability of customer owned financial institutions to equitably distribute franking credits

We discuss them in turn below.

### 1. Taxation of deposits

The Customer Owned Banking Association's submission to the inquiry explains this issue:

*ADI deposits are the simplest and safest savings vehicles for Australian households but they are also the most heavily taxed. ... the Henry Review found that: "There is considerable evidence that tax differences have large effects on which assets a household's savings are invested in".*

*... it would be appropriate for the FSI to consider the appropriateness of the Henry Review's initial recommendation regarding the taxation of deposits. Specifically, that the Government "provide a 40 per cent savings income discount to individuals for non-business related net interest income". (Customer Owned Banking Association 2014, pp. 62–3)*

We support this view, and also agree with the Customer Owned Banking Association (2014, p. 63) that the current tax treatment of deposits has a disproportionate effect on customer owned financial institutions (for which deposits comprise around 80 per cent of funding, and almost 100 per cent for **bankmecu**).

### Recommendation 7

That the inquiry recommend the Australian Government give a 40 per cent tax concession on all interest earning products, in line with the Henry Review findings.

## 2. Superannuation funds

We support the Australian Bankers' Association's view that the superannuation funds are heavily weighted towards equity investments and can play a greater role in funding the economy. In particular:

*The banking industry fully appreciates that the superannuation funds' priority is to provide retirement benefits to members. The industry supports providing investment opportunities that improve funding, consistent with this goal. Accordingly, a review of the market to determine if there are changes to both superannuation funds and the types of bonds on offer that would result in superannuation funds holding more bonds may be of great benefit. The potential benefits from creating investment opportunities for superannuation funds in terms of facilitating growth for Australia is worthy of the Inquiry's full attention. (Australian Bankers' Association 2014, p. 65)*

### Recommendation 8

That the inquiry recommend a review of superannuation fund and bond regulations to encourage investment in bonds.

## 3. Small, relatively illiquid retail bond market

The two main barriers to the retail bond market for customer owned financial institutions are (1) our issues (either individually or collectively) may be too small to be cost effective and (2) we are not rated highly enough. It is also for these reasons that customer owned financial institutions cannot feasibly access international debt markets at reasonable cost. We consider the Australian Government can play a positive role in developing and growing the domestic bond market, and should make this growth a policy priority.

An efficient and liquid domestic bond market will assist all Australian banks. In particular, it will provide an alternative source of funding for customer owned financial institutions that rely heavily on retail deposits. To start, the government could consider regulatory and disclosure barriers. Treasury began this work in 2011, with its draft paper *Development of the retail bond market: streamlining liability and disclosure requirements*. The Australian Bankers' Association (2014, pp. 60-61) agrees this work should continue.



## Recommendation 9

That the inquiry consider how to establish a more liquid and active domestic bond market. In particular, it should recommend the Australian Government establish policy that stimulates the bond markets, and consider the regulatory and disclosure barriers to that stimulation.

### 4. Access to common equity Tier 1 (CET1) capital and franking credits

Customer owned financial institutions cannot raise extra capital by issuing market value shares. The ownership of **bankmecu**, for example, consists of \$5 shares, which are treated for regulatory and accounting purposes as a debt rather than an equity instrument and with each customer able to hold only one share. This structure, like similar structures in other customer owned financial institutions, means we rely almost exclusively on retained profits to provide Tier 1 capital support for growth in the lending book.

Further, customer owned financial institutions are unlikely to pay dividends, because each customer can only hold one share, and a dividend payment would not recognise customers contribute differently to the financial strength of the bank. So, they do not use this most common method of accessing franking credits.

One possible solution to both these issues is to develop Tier 1 capital instruments that do not carry voting rights and that pay a franked coupon. Other financial institutions in Australia have used similar hybrid instruments. The development of such an instrument for customer owned financial institutions would require the coordination and cooperation of APRA, ASIC and the ATO. But the effort is warranted, because this type of capital instrument is crucial to the growth of the customer owned banking sector. We support COBA's argument that:

*It is essential that listed ADIs and customer owned ADIs receive equivalent treatment under Basel III capital rules. Failure to provide customer owned ADIs with the capacity to issue the same forms of capital as listed ADIs will continue to harm competition, choice and diversity for no prudential benefit. (COBA 2014, P. 47)*

Without it, the sector will not be able to compete with listed entities. We urge the inquiry to consider the development of mutual financial institutions in Europe, where this sector represents up to 60 per cent of the retail bank market and provides strong and stable competition to listed entities. The growth of many of these mutual financial institutions is facilitated by their access to Tier 1 capital instruments outside member share capital.

The fact that customer owned financial institutions in Australia cannot distribute franking credits in the same way as listed ADIs do to external shareholders also undermines competitive neutrality in the market. The Customer Owned Banking Association articulates a potential policy response as 'the introduction of a frankable debt deposit product, given that this will provide a solution around both existing and prospective franking credit' (COBA 2014, p. 40) Such a product would also be useful in rebalancing competitive neutrality and also helping address the sector's reliance on retail deposits as its main source of funding.

The Australian Centre for Financial Studies noted most solutions to the uneven playing field focus on an instrument by which mutual ADIs can release franking credits to member owners, and explained:

*... Such solutions need to: (i) ensure that all members are treated equally; (ii) guard against an intergenerational transfer of accumulated wealth; (iii) avoid diverging interests between instrument holders and member owners; and (iv) have clear quantifiable taxation outcomes. (Australian Centre for Financial Studies 2014, p. 3)*

### Recommendation 10

That the inquiry recommend the Australian Government require APRA, ASIC and the ATO to facilitate the development of a Common Equity Tier 1 non-voting capital instrument that pays a franked coupon, for issue by customer owned financial institutions.

### Recommendation 11

That the inquiry recommend the Australian Government consider allowing customer owned financial institutions to offer a frankable and deductible debt deposit product.

*In terms of environmental sustainability*, we have led the way in Australia in developing financial products with inbuilt sustainability incentives. Examples are our goGreen® home and car loans, which offer better rates for more sustainably designed homes and environmentally efficient and safe motor vehicles. Another example is our Conservation Landbank (see the following case study).

We would support government policy that encourages such direct action sustainability initiatives by all banks.

## Case study: bankmecu's Conservation Landbank

In 2008 **bankmecu** purchased the first of five properties in the West Wimmera region of Victoria to create our Conservation Landbank—a world first for a financial institution. By buying and re-vegetating non-productive farm land, we offset the greenhouse gas emissions generated by the bank's operations and the cars that we finance.

This project also allows us to offset the loss of biodiversity resulting from new homes that we finance. If, for example, a customer purchases a block of land at 650 square metres, we allocate the equivalent amount of land for protection and/or re-vegetation in the Landbank.

By signing a conservation covenant over these properties, we have created an environmental asset that will be protected in perpetuity, and owned by our customers.

# Appendix A: More about bankmecu

Our heritage can be traced back to the mid 1800s in Europe when the first people's banks were established by bringing people together to pool their money for the benefit of all. Today, hundreds of millions of people around the world bank with customer owned financial institutions.

We are Australia's strongest customer owned bank. That success has grown from a conservative and more responsible approach to banking, and from our customers' strong support. We listen to our customers, and their attitudes and values help guide how we decide to invest their money in the community, environment and more responsible banking products and services.

We offer our customers:

- exemplary personal service
- better interest rates and lower fees. Since 2003, our customers have been collectively better off banking with us than with the major four banks (Cannex report 2003–12).
- a more responsible approach to banking. People want to bank with someone they can trust with their money and trust to act ethically.
- banking products and services that help our customers achieve their financial goals while taking steps to live more sustainably.

In 2010 *Ethical Investor* recognised us as Australia's most sustainable small company of the year.

## We live our values

- We treat our customers with dignity and respect.
- We value, encourage and support our employees.
- We operate ethically and with integrity.
- We apply prudent financial and business practices.
- We are economically, environmentally and socially responsible.

## We also uphold the cooperative principles of mutuality

**bankmecu** proudly supports the following principles of mutuality, shared by all financial cooperatives around the world:

- |                               |                                   |
|-------------------------------|-----------------------------------|
| • open and voluntary accounts | • building of financial stability |
| • democratic control          | • ongoing education               |
| • non-discrimination          | • cooperation among cooperatives  |
| • service to customers        | • social responsibility.          |



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