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Taking credit: Improving economic conditions are expected to stimulate credit card use

IBISWorld Industry Report X0009
Credit Card Issuance in Australia

November 2014

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Senate Economics Legislation Committee
Budget Estimates 2015-16, 1-4June 2015

Tabled Document
By: Senator Sam Dastyari
Date: 1/6/2015

About this Industry

Industry Definition

Operators in this industry issue credit and charge cards to businesses and consumers. These cards provide users with a line of credit to use for purchases or cash advances. Credit card balances roll over month to month and can be repaid in full or by instalment. Charge card balances must be paid in full each month. The cards are not issued directly by Visa, MasterCard, Diners Club or American Express. Instead, these companies provide the transaction processing networks.

Main Activities

The primary activities of this industry are

- Providing credit via a credit card
- Providing credit via a charge card

The major products and services in this industry are

- Balance transfer cards
- Business cards
- Low or no annual fee cards
- Low-interest cards
- Platinum and gold cards
- Rewards cards

Similar Industries

K6222 Building Societies in Australia
Businesses in this industry take deposits and provide loans for home building and purchasing purposes. A number of building societies provide credit lines via a credit card.

K6223 Credit Unions in Australia
Establishments in this industry provide their members with banking services, primarily deposit taking and lending that include credit card issuance.

K6231 Securitisation Vehicles in Australia
Companies in the industry securitise assets such as residential mortgages, car loans and credit card receivables. Credit card backed securities are a small product for the industry.

K6221a National and Regional Commercial Banks in Australia
Companies in this industry are mainly engaged in the issuance of credit cards is a key part of the operations of domestic banks.

K6221b Foreign Banks in Australia
Firms in this industry undertake the banking activities of foreign bank subsidiaries, branches and representative offices in Australia. Foreign banks earn some revenue from credit card operations.

About this Industry

Additional Resources

For additional information on this industry

www.bankers.asn.au
Australian Bankers' Association Inc.

www.abs.gov.au
Australian Bureau of Statistics

www.apra.gov.au
Australian Prudential Regulation Authority

www.rba.gov.au
Reserve Bank of Australia

Industry at a Glance

Credit Card Issuance in 2014-15

Key Statistics Snapshot

Revenue	Annual Growth 10-15	Annual Growth 15-20
$10.6bn	2.7%	3.4%
Profit	**Wages**	**Businesses**
$634.4m	$580.8m	141

Market Share

Commonwealth Bank of Australia 16.3%

Westpac Banking Corporation 13.4%

Australia and New Zealand Banking Group Limited 11.6%

National Australia Bank Limited 7.9%

p. 23

Key External Drivers

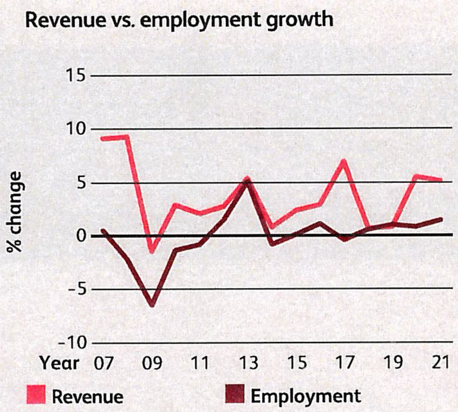
Household consumption expenditure

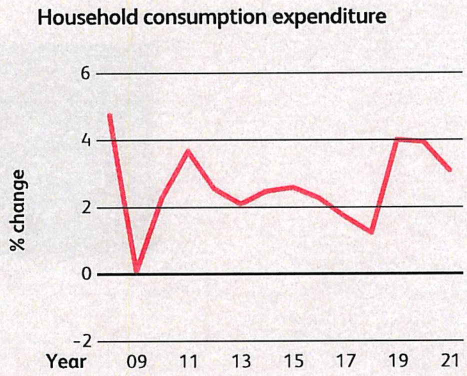
High income earners

National unemployment rate

Consumer sentiment index

p. 5





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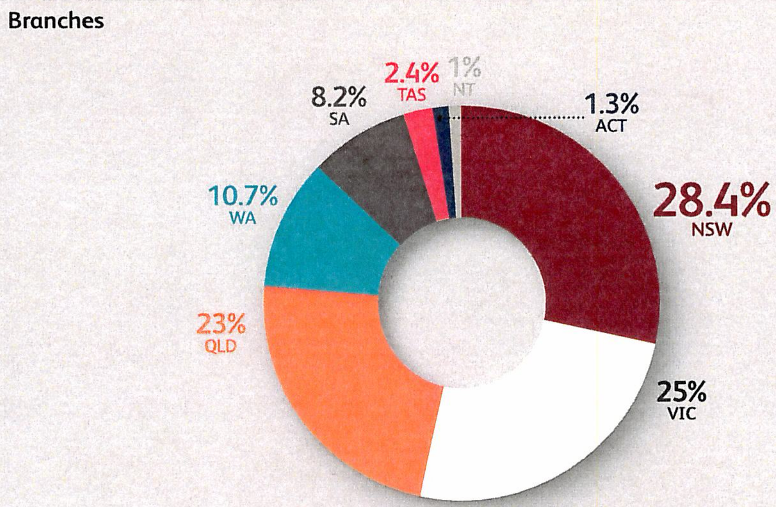

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Industry Structure

Life Cycle Stage	Growth	Regulation Level	Heavy
Revenue Volatility	Low	Technology Change	High
Capital Intensity	Medium	Barriers to Entry	High
Industry Assistance	Low	Industry Globalisation	Low
Concentration Level	Medium	Competition Level	High

FOR ADDITIONAL STATISTICS AND TIME SERIES SEE THE APPENDIX ON PAGE 31

Industry Performance

Executive Summary | Key External Drivers | Current Performance
Industry Outlook | Life Cycle Stage

Executive Summary

The Credit Card Issuance industry has continued to grow at steady rates. Total balance of credit card debt outstanding is forecast to grow at an annualised 3.2% over the five years through 2014-15, primarily driven by higher discretionary income levels and a high Australian dollar over this period. Despite households still deleveraging their financial position and the ratio of credit card debt to discretionary income falling, the overall levels of discretionary income levels have increased over the past five years, driving the absolute level of consumption up. Higher Australian dollar and the strong growth in online shopping have also increased the portion of goods purchased with credit cards.

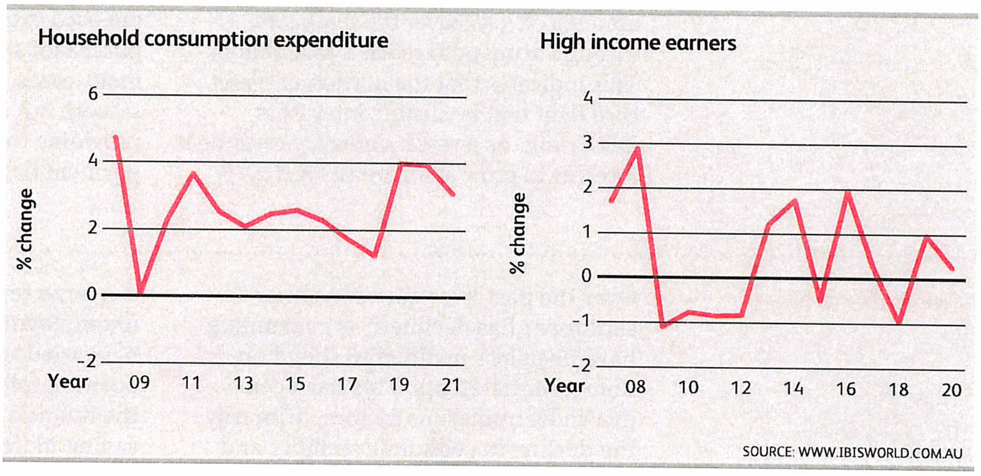
A more subtle factor driving industry revenue growth has been the perceived wealth effects that emerged as a result of relatively cheaper repayments on mortgages and car loans. With the Reserve Bank of Australia cutting interest rates to historic lows and housing prices booming, many consumers have taken this opportunity to refinance their mortgages and draw down some of the equity built up in their homes. This has helped the overall consumer spending trends. However, lower consumer sentiment and households deleveraging their financial position have continued to weigh down industry performance. Industry revenue is forecast to grow at annualised 2.7% over the five years through 2014-15 to reach $10.6 billion, which is 2.4% higher than the previous year. Growth over the next five years is expected to reach slightly higher levels but remain well below those prior to the financial crisis. Industry revenue is forecast to grow at an annualised 3.4% over the five years through 2019-20 to reach $12.5 billion.

The industry continues to be dominated by the big four banks, which together hold an industry market share of just under 50.0%. This can be attributed to the banks' ability to secure financing, coupled with the dominant position they have in the mortgage lending market. Often, credit cards are tied together with mortgages. This has given the big four banks an advantage, since many consumers have refinanced their homes over the past five years.

Key External Drivers

Household consumption expenditure

As households increase their consumption of goods and services, a portion will be funded through debt even if incomes rise. Since interest is payable on credit card balances, the larger the outstanding debt, the greater the revenue for the industry. Household consumption expenditure is expected to increase in 2014-15, which represents an opportunity for the industry.



Industry Performance

Key External Drivers continued

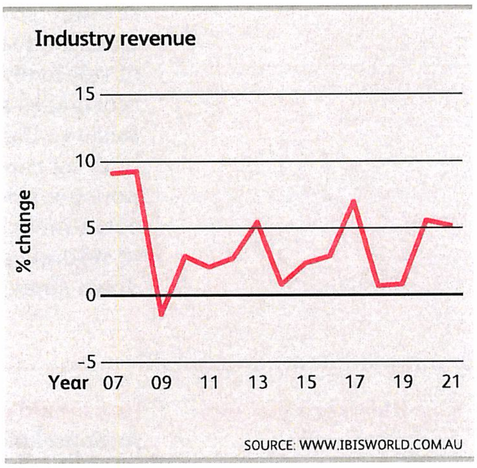
High income earners
High-income earners have the highest capacity to access debt funding through credit cards. They are also the biggest spenders. Therefore, the larger their income, the more revenue the industry can generate. The share of total discretionary revenue earned by high-income earners is expected to decline in 2014-15, which represents a threat for the industry.

National unemployment rate
A rise in the unemployment rate results in increased risk of delinquency on outstanding credit card balances. A decline in the unemployment rate is likely to result in increased spending on credit cards, lifting the amount of revolving credit outstanding. The national unemployment rate is expected to decrease in 2014-15.

Consumer sentiment index
The consumer sentiment index is a proxy for consumers' confidence in their financial situation and income levels. Higher confidence levels encourage consumers to make purchases on credit, since they are more confident in their ability to pay the debt off later. The consumer sentiment index is expected to increase in 2014-15.

Current Performance

The Credit Card Issuance industry has not performed as well over the past five years as it had prior to the financial crisis, when it was not uncommon for credit card debt to grow by 10.0% every year. However, despite the slower growth rates, consumers have still been using credit cards. Credit card debt (or balances outstanding on credit cards) is forecast to grow at an annualised 3.2% over five years through 2014-15, reaching $53.4 billion. This debt can be split into two categories: the debt that accrues interest and the debt that does not. The latter usually occurs as a result of credit card honeymoon periods, when consumers are not required to pay any interest for a set period of time (usually six months). Credit card debt that accrues interest is forecast to grow at an annualised 3.5% over the five years through 2014-15 to reach $38.5 billion. This indicates that the portion of credit card debt that is earning interest is increasing. As a result, industry revenue is forecast to grow at an annualised 2.7% over the five years through 2014-15. To a large extent, industry revenue depends on consumer spending patterns. Credit cards are used extensively to pay bills, for online purchases and general living expenses. In many cases, credit cards are used to smooth out consumers' consumption, providing the ability to spend between payment dates.



Revenue drivers

Over the past five years consumer sentiment has declined, as consumers have been less inclined to spend on non-essential items. This has been driven by numerous factors, primarily the decline in economic stability and concerns regarding rising unemployment. Additionally, households have tried to deleverage their financial position following the debt binge prior to the financial crisis. This has meant saving more and repaying outstanding

Industry Performance

Revenue drivers continued

debt. As a result, the ratio of credit card debt to discretionary income is expected to decline from 11.04 in 2009-10 to 10.98 in 2014-15.

However, total credit card balances outstanding have still grown over the past five years, as has the balance accruing interest. Despite consumers being more prudent with their finances, several factors have contributed to the overall growth in total value of credit card purchases. For most of the past five years, the Australian dollar remained relatively strong against other currencies (notably the USD and the euro), which made overseas purchases relatively cheaper. Consumers took advantage of this, which has been evident in the strong growth of online shopping in Australia. Since most overseas purchases are done with a credit card, the total amount of credit card debt outstanding has increased over the past five years. Also contributing to higher purchases was the growth in discretionary income over this period, which more than offset consumers choosing to deleverage their financial positions.

More indirect factors contributing to higher consumer spending have been lower interest rates, the booming housing market and the subsequent wealth effects affiliated with these two factors. Lower interest rates generally translate into cheaper borrowing costs on large ticket items. One such item is the motor vehicle. Lower rates have effectively made the second most expensive purchase in a household more affordable, contributing to the perception of higher wealth among consumers. Total financing taken out for the purchase of new motor vehicles has grown at an annualised rate of 15.0% over the five years through 2014-15. Lower interest rates have also reduced the average mortgage repayments, and many households have taken advantage of low interest rates and refinanced their mortgages. This has also allowed consumers to tap into the built-up equity in their homes following several years of strong growth in residential real estate prices. Interest rates reached their historic lows in late 2013 and have remained at that level since. Consequently, industry revenue is forecast to grow by 2.4% in 2014-15 to reach $10.6 billion.

Profitability and other trends

The wholesale capital markets have been recovering after their freeze during the height of the financial crisis. Wholesaling funding costs – the interest paid on debt raised through wholesale markets – have been steadily declining over the past five years. Improving stability in the global markets and the strong credit rating of Australia and its financial system have driven this decline. At the same time, the Reserve Bank of Australia lowered the cash rate to historic lows in 2013 in its attempt to stimulate non-mining economic sectors. This has helped to bring down the cost of bank deposits. In a lower interest rate environment, banks reduce the interest they pay on depositors' funds. Wholesale funding and deposits represent the two largest sources of funding for the major banks in Australia. A reduction in both of these sources of funding has helped improve the overall lending margins and industry profitability over the past five years.

The big four banks remain the largest companies operating in the industry, and together hold $33.8 billion worth of credit card advances as of September 2014. Their market share dominance is primarily attributed to their ability to source funding, while many smaller lenders are limited by the amount of cash they can lend. Shortly after 2008-09, many smaller lenders felt the pressure of higher borrowing costs and lower liquidity in wholesale markets, which resulted in a decline in industry enterprise numbers over the past five years. Despite this, total industry employment is expected to grow over the five years through 2014-15. This is attributed to growth in credit card

Industry Performance

Profitability and other trends continued

account numbers, which are forecast to grow at an annualised 2.3% over the five years through 2014-15.

As of March 2013, higher capital requirements have been applied to banks as part of Basel III regulatory standards. These standards require banks to have a higher portion of Tier 1 capital on their balance sheets, thereby improving their liquidity. The most common examples of Tier 1 capital are shareholder's equity and retained earnings. Because credit card advances are considered risky assets, banks have had to increase the amount of Tier 1 capital for every dollar lent to consumers through credit cards. This has exerted negative pressure on industry profitability, but has been more than offset by lower interest rates.

Industry Outlook

IBISWorld expects the Credit Card Issuance industry to return to solid growth over the next five years, with improving economic conditions and growing demand for online payment systems stimulating credit card use. Having taken the opportunity to increase savings and pay down debt over the past five years, Australian consumers are expected to be more willing to take on new debt over the next five years, resulting in strong growth in credit card transactions and debt outstanding. This will be aided by robust growth in online retailing over the next five years, although debit cards are expected to increase their presence in the online environment. Industry revenue is forecast to grow at an annualised 3.4% over the five years through 2019-20 to reach $12.5 billion. The number of employees working in the industry is expected to increase over the same period, in line with the growing number of credit card accounts. Industry profitability is expected to remain relatively steady over the next five years, with profit margins already at very high levels. In 2015-16, industry revenue is forecast to grow by 2.9%.

Stronger growth expected

While mining investment is projected to slowly wind back over the next five years, the recovering global economy, lower interest rates and a weaker Australian currency should bolster activity in the non-mining economy and result in stronger credit growth. Relatively low unemployment and the end of personal deleveraging, as consumer balance sheets are restored, is expected to support solid spending patterns over the period. Consumers are expected to continue reaching for their credit cards when purchasing goods and services, supporting growth in credit card account numbers, transactions and balances outstanding. Strong demand for leisure and entertainment, including restaurants, music concerts and festivals and other live performances, will continue to drive increasing use of credit cards.

Increasing activity in the non-mining sector of the economy will boost industry revenue

The ongoing consumer and business preference for credit cards and other electronic payment types for purchases, rather than cash or cheques, will support growth over the next five years. The wide acceptance of plastic across more sectors of the economy will also ensure the demand for credit cards. The industry will continue to benefit from growth in online retail sales, and consumers will continue to be attracted by the lower prices and wider product choices offered by online retailers over the next five years.

Industry Performance

Stronger growth expected continued

Despite conditions improving, credit card balances are unlikely to grow at the pre-crisis pace. Consumers are simply not as confident in their financial positions as they once used to be. Consumer sentiment is expected to be lower over the next five years. This is partly attributed to the fact that high capital expenditure on mining over the past five years has helped Australia emerge from the financial crisis largely unharmed. With the capital expenditure now waning, this is expected to weigh down on consumer sentiment. Another aspect that will put spending in check is the expected depreciation of the Australian dollar, making online purchases and imported goods not as cheap as they used to be. The lower Australian dollar, coupled with booming housing prices, is likely to exert larger pressure on the Reserve Bank of Australia to start increasing interest rates. As this happens, consumers are expected to feel less wealthy, and essential items such as the repayment of mortgages and car loans are expected to increase.

Debit card competition

Credit cards are likely to come under increasing competition from debit cards over the next five years. Debit cards allow consumers to access their own bank accounts electronically without having to take on debt. Since the introduction of Visa and Mastercard debit cards, consumers have gradually made more transactions on debit rather than credit. IBISWorld anticipates that credit cards will account for 58.0% of total plastics transactions in 2014-15, compared with 42.0% for debit cards. This can be partially attributed to consumers deleveraging their finances and choosing not to take on further debt. Other payment systems are also a potential threat, but are unlikely to emerge as a serious contender for credit cards. Internal competition within the industry is also expected to increase, as the number of industry participants increases. This will be driven by companies other than financial institutions (such as supermarkets) constantly trying to break into the market.

While this trend is expected to continue over the next five years, particularly for smaller purchases, consumers will continue to use credit cards to make purchases they cannot afford to pay for on the spot. The introduction of a cap on credit card surcharges should improve the relative attractiveness of credit cards. While rising competition from debit cards will influence revenue within the industry, it is important to note that the major banks will continue to provide both debit and credit cards.

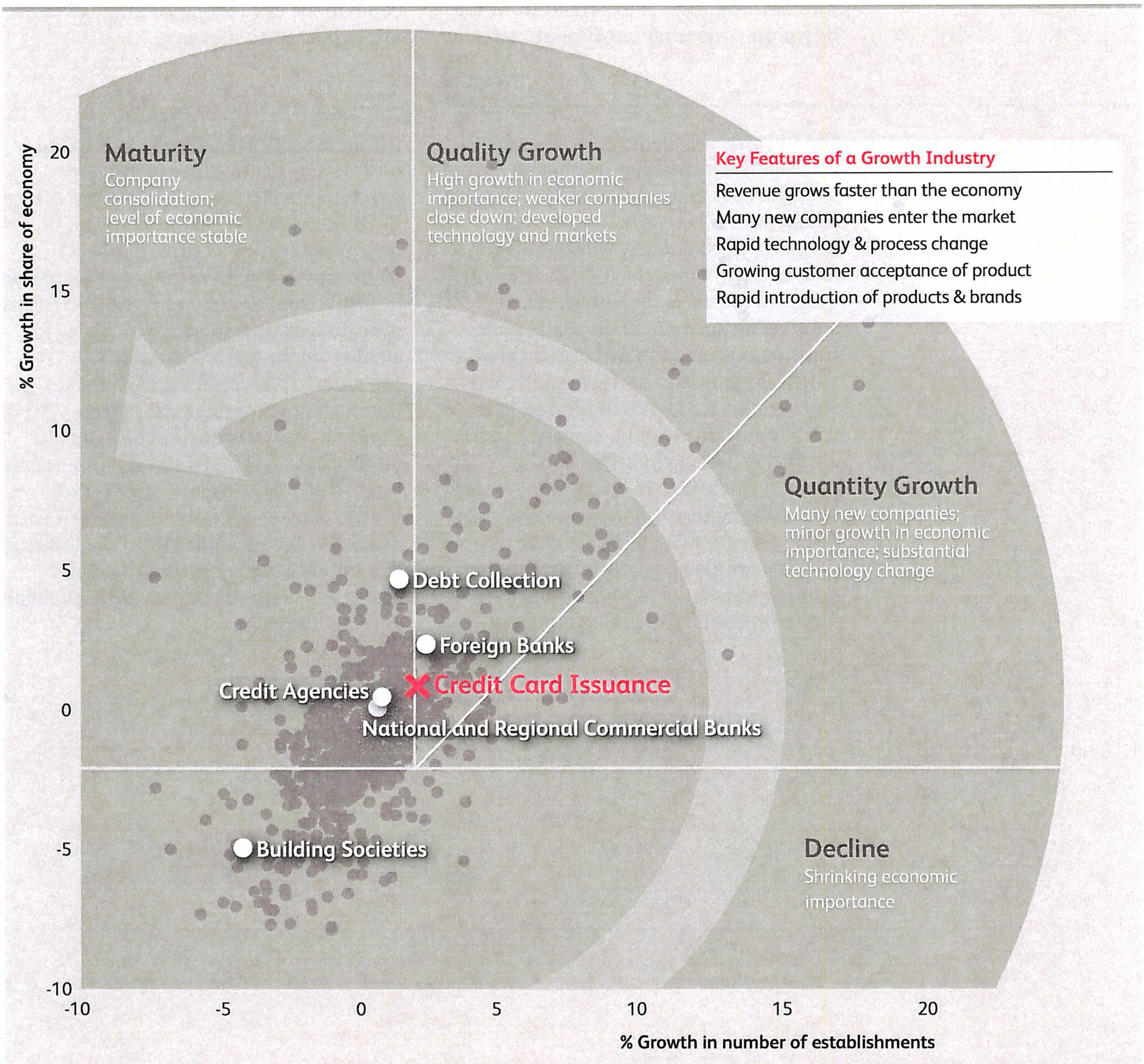
Industry Performance

Life Cycle Stage

The industry is growing at a faster pace than the overall economy

New products continue to be introduced to the market

The demand for credit cards continues to rise as accessibility improves and the population grows



SOURCE: WWW.IBISWORLD.COM.AU

Industry Performance

Industry Life Cycle

This industry is **Growing**

The industry is currently in the growth phase of its economic life cycle. Industry value added is forecast to grow at a compound annual rate of 3.6% over the 10 years through 2019-20. This is faster than the forecast GDP rate of 2.7% over the same period.

Advancements in telecommunication technology and the arrival of online shopping gave the industry a significant boost over the past decade. New products are being continuously introduced, which allows the industry to enter new consumer markets and expand existing ones. This is indicative of a growing industry. The continued focus on customer satisfaction will see the industry hiring more people and spending more on wages. Additionally, the industry is backed by solid fundamental factors such as population growth. As the number of people living and working in Australia increases, the demand for payments systems grows with it. Further supporting industry revenue growth is the increasing acceptability and convenience of using credit cards over cash.

Products & Markets

Supply Chain | Products & Services | Demand Determinants
Major Markets | International Trade | Business Locations

Supply Chain

KEY BUYING INDUSTRIES

Z9901	**Consumers in Australia** The demand for credit cards mainly stems from households.

KEY SELLING INDUSTRIES

K6221a	**National and Regional Commercial Banks in Australia** National and regional commercial banks issue credit cards and supply the credit that borrowers use to make purchases.
K6221b	**Foreign Banks in Australia** Foreign banks operating in Australia issue credit cards to customers. The debt accrued by customers is also financed by foreign banks.
K6222	**Building Societies in Australia** Building societies issue credit cards to their members and finance the debt accrued through purchases made.
K6223	**Credit Unions in Australia** Mutual financial institutions issue credit cards to members and provide the finance backing the cards issued.
N7293a	**Debt Collection in Australia** When customers default on their credit card debts, lenders who are owed money employ the services of debt collection agencies to reclaim funds owed.
N7293b	**Credit Agencies in Australia** Credit rating agencies assess the creditworthiness of credit card applicants, upon which lenders make decisions regarding approval of an application.

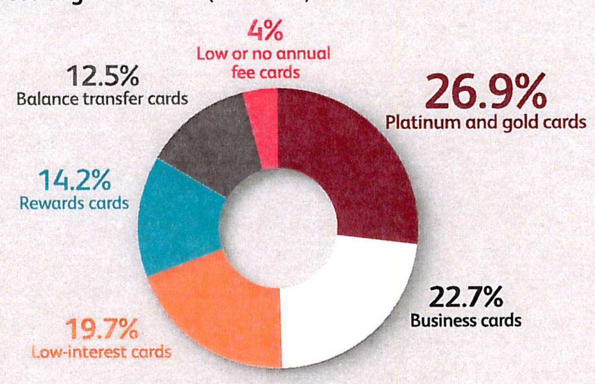
Products & Services

The institutions that provide finance for the purchases made by customers also issue credit cards. Funds-transfer facilitators, such as Visa, MasterCard and American Express, provide the actual payment systems and infrastructure that is used to process transactions. Essentially, the Credit Card Issuance industry offers a single product – credit cards. However, the features of credit cards vary significantly and cater to the needs of different consumer groups.

Balance transfer cards

A balance transfer card enables customers to transfer their existing credit card debt and repay it at a lower interest rate, sometimes 0.0%, over a set period. This generally gives the debtor up to 12 months to bring down the balance on

Products and services segmentation (2014-15)



Total $10.6bn

SOURCE: WWW.IBISWORLD.COM.AU

Products & Markets

Products & Services continued

their credit card by reducing or eliminating the amount of interest that accrues. Once this period elapses, the interest rate charged on the card reverts to a higher rate.

Balance transfer cards are primarily used for debt-consolidation purposes, and are targeted at highly indebted people encountering financial difficulties and looking to reduce their exposure to debt. Given Australian households' debt cleanse over the past five years, this product is expected to have increased as a portion of revenue.

Rewards cards

As an incentive for customers to use credit cards in preference to other payment methods (e.g. cash), credit card issuers offer rewards. These rewards may come in the form of receiving cash back (usually 1.0% of total purchases made), or rewards points that can be redeemed for gifts or shopping vouchers, including frequent flyer points. The downside for consumers is that these types of cards charge higher rates on loan balances, which can make them expensive. Thus, they are aimed at older, higher income consumer segments.

IBISWorld expects that the demand for this type of card has remained relatively strong over the past five years. However, because of the development of products that target new customer segments, and the changing demographics of the industry's customer base, this product is expected to lose market share over the five years through 2014-15.

Low-interest cards

Low-interest credit cards charge customers a low interest rate on the balance outstanding. Therefore, they are a more affordable way of making purchases than using cards that charge higher or premium rates. Low-interest cards are particularly popular with customers who have a revolving credit balance, those who do not repay the full amount outstanding or those who are highly indebted and are looking to reduce the amount of interest that accrues on their credit card debt.

Credit cards with these features have become increasingly popular over the past five years. As households have attempted to reduce debt, they have looked to consolidate their credit card debt by transferring balances to low-interest credit card accounts. Furthermore, the growth in credit card issuance to lower income customers, including students, has fuelled growth in popularity of this product. This product segment is expected to increase as a portion of revenue over the five years through 2014-15.

Platinum and gold cards

These premium products have high eligibility requirements, and are often considered status symbols. Platinum and gold cards are generally issued to high-income earners and to consumers with good credit ratings. The variety of benefits and rewards offered through these cards is not available in other card types. Lower interest rates are charged and higher credit limits are extended to customers purchasing with platinum and gold cards.

Traditionally, platinum and gold cards have comprised the largest product segment. Wealthy individuals frequently use credit cards to make purchases. In 2014-15, this segment is estimated to account for 26.9% of industry revenue and is expected to remain relatively stable as a portion of revenue over the five years through 2014-15.

Business cards

These types of cards are issued to customers with an Australian Business Number (ABN), and give business owners certain advantages unavailable to regular retail clients. Business credit card holders receive tax deductions on spending and other prestige benefits in the form of rewards.

This product type accounts for a large proportion of the total market because, on average, businesses have larger credit balances outstanding than individuals.

Products & Markets

Products & Services continued

Although the total number of business cards issued is far lower than card issuance to households, the volume and value of transactions are generally higher.

This product segment is expected to decline as a portion of revenue over the five years through 2014-15, with more credit cards being issued to consumers.

Demand Determinants

The main demand determinant for this industry is the level of household consumption expenditure, which is intern driven by the consumer propensity to save. Traditionally, people in the higher income brackets have been the major users of credit cards. Increasingly though, people in the lower personal income brackets have attained credit cards, spurred by easily attainable credit prior to the global financial crisis. However, following the financial crisis, lenders have tightened their lending standards and have made it more difficult for people to access credit. At the same time, highly indebted Australian households have sought to reduce their debt burden and save. In the process, they have lowered the level of credit card spending.

The interest rate charged on credit cards is another important determinant of demand. Interest rates represent the cost of borrowing funds to purchase goods and services on credit. As interest rates rise, the cost to the borrower of funding purchases on their credit card increases as well. This deters consumers from borrowing and sees the level of credit card spending decline. However, this also generates a higher rate of return on outstanding balances. Overall, higher interest rates decreases tend to decrease demand for credit cards (all else being equal) and increase industry revenue. Lastly, product development and innovation can stimulate demand. It allows credit card issuers to enter new markets and expand existing markets.

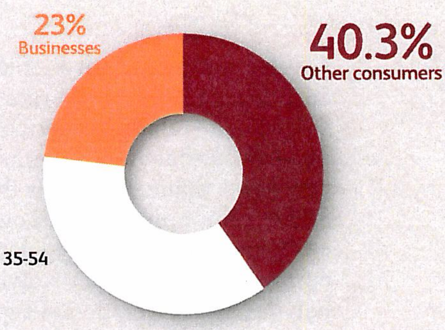
Major Markets

There are two main markets for credit cards in Australia: households and businesses. Although each of these markets is made up of different types of customers, they are essentially the same. The main difference is that business customers must have an ABN to be issued with a business credit card. The business customers themselves may have different credit ratings, different earning capacity and credit limits.

Businesses

IBISWorld estimates that the businesses

Major market segmentation (2014-15)



Total $10.6bn

SOURCE: WWW.IBISWORLD.COM.AU

Products & Markets

Major Markets continued

market segment accounts for 23.0% of the market for credit cards. Although the number of credit cards issued to business customers is only a fraction of those issued to households, the amount and frequency of purchases made by businesses are far larger than that of the average non-business credit cardholder. This market segment is expected to decline as a market over the five years through 2014-15. This is attributed to more credit cards being issued to consumers due to high levels of mortgage refacing and an increasing number of balance transfer accounts.

Consumers aged 35 to 54

Consumers aged 35 to 54 account for the largest portion of expenditure of all age groups. These consumers tend to earn higher incomes and have higher discretionary spending capabilities. Furthermore, because consumers in this age category generally have young dependants, their expenditure tends to be higher. Since most household deleveraging comes from this age group, this market segment is expected to decline as a portion of revenue over the five years through 2014-15.

Other consumers

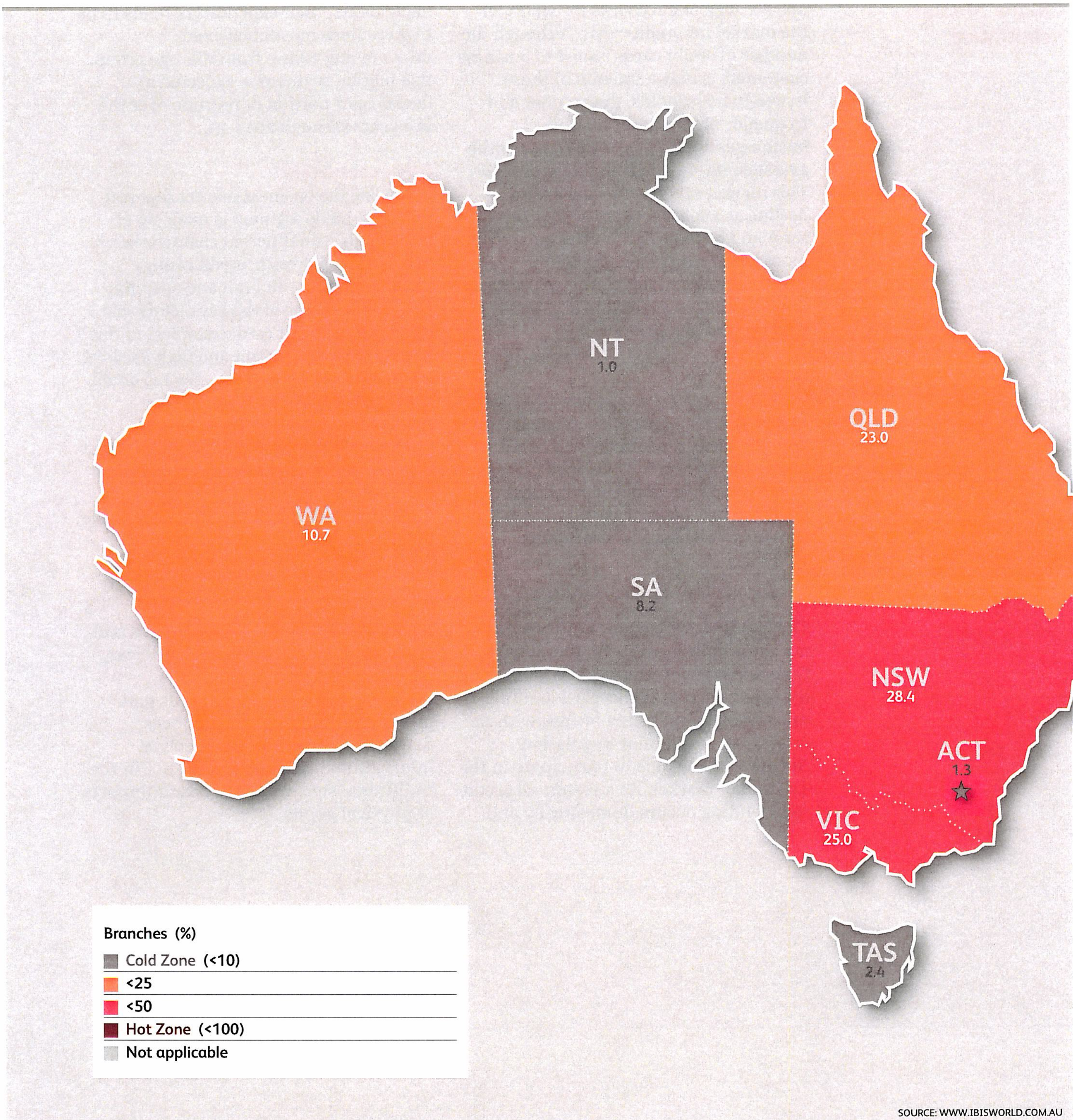
Much like the business market segment, the households segment is made up of individuals with different characteristics. Age, earnings, wealth, credit rating, indebtedness, credit limit and spending patterns are some of the key factors that differentiate credit card customers in this market. Unemployment and high levels of credit card debt negatively affected credit card spending by households. This segment includes households in age categories other than 35 to 54 years of age. Overall, this market segment is expected to increase as a portion of revenue over the five years through 2014-15, largely due to the rapid decline of other markets.

International Trade

The Credit Card Issuance industry does not undertake any international trade. Companies involved in the banking business, such as credit card lending, must hold an operating license with the Australian Prudential Regulation Authority to be able to participate in the Australian market. As a result, all credit card lending occurs domestically and lending is only made to businesses and households in Australia. Nonetheless, foreign banks participate in the industry, and issue credit cards and provide the funding that finances purchases. From that perspective, international trade exists but not in the traditional sense of exports and imports of physical goods.

Products & Markets

Business Locations 2014-15



SOURCE: WWW.IBISWORLD.COM.AU

Products & Markets

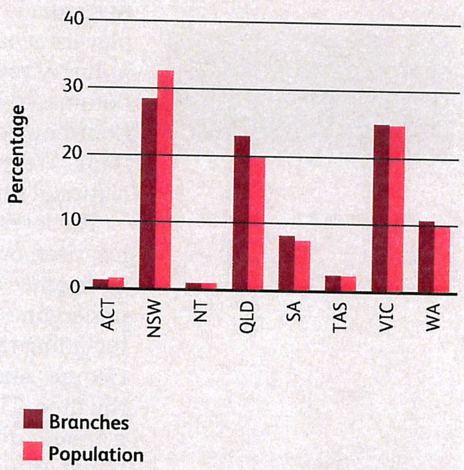
Business Locations

The number of establishments that issue credit cards rose over the past five years. IBISWorld estimates that 28.4% of all credit card issuing institutions are located in New South Wales, 25.0% branches are situated in Victoria, and a further 23.0% branches are located in Queensland. Together these three states account for about 76.4% of credit card issuing branch locations.

The majority of these establishments are located in the capital cities of Sydney, Melbourne and Brisbane, and are closely correlated with population dispersion. There are numerous branches in other cities and towns across these states, but the vast majority of bank branches are situated in regions that are densely populated. This enables credit card issuers to have a physical presence near a large pool of their customers who can easily access their products and services. Enterprises that fail to have a physical presence run the risk of losing customers to competitors who do.

Collectively, the remaining five states and territories account for an estimated 23.6% of the industry's branches. Western Australia increased its relative importance in terms of branch numbers due to population growth over the past decade. This necessitated a greater widespread presence of credit card issuing institutions in the region.

Distribution of branches vs. population



SOURCE: WWW.IBISWORLD.COM.AU

Competitive Landscape

Market Share Concentration | Key Success Factors | Cost Structure Benchmarks
Basis of Competition | Barriers to Entry | Industry Globalisation

Market Share Concentration

Level
Concentration in this industry is **Medium**

The market share concentration of the Credit Card Issuance industry in Australia is medium, with the four largest players accounting for less than 49.2% of industry revenue. The industry is dominated by the four major banks: Commonwealth Bank of Australia, ANZ Bank, Westpac Banking Corporation and National Bank of Australia.

The level of market share concentration has risen over the past five years. Since the emergence of the crisis, the industry has undergone drastic structural changes, including the merger of Westpac and St. George, Australia's fifth-largest bank at the time. This gave the consolidated entity a greater dominance of the credit card issuance market, rivalling the Commonwealth Bank as Australia's largest credit card lender. This was followed shortly after with Commonwealth's acquisition of Bankwest, which subsequently increased its profile in the Western Australian market.

The big four banks also hold a large market share in residential mortgage lending. Residential mortgages are often bundled with credit cards, which gives the big four an edge. Consumers have taken advantage of lower interest rates over the past five years by purchasing new homes as well as refinancing their existing mortgages. This resulted in proportionality larger amount of credit cards being issued by the big four.

Regulatory changes have placed restrictions on the level of concentration. The enactment of the 'four pillars policy', which prohibits the four major banks from merging or acquiring each other's business, is an example of one such regulation. Industry concentration is unlikely to increase over the five years through 2019-20. This is also partially attributed to emergence of Asian banks in Australia.

Key Success Factors

IBISWorld identifies 250 Key Success Factors for a business. The most important for this industry are:

Access to the latest available and most efficient technology and techniques

Success depends on prudent investment in and proper application of technology in customer information systems, risk management and distribution. Technology allows credit card issuers to deliver better services more efficiently.

Having an extensive distribution/ collection network

Establishing a large network of customers to whom to distribute products via well-developed branch, online and mail networks is important.

Management of a high-quality assets portfolio

Credit card issuers must be able to manage their portfolio of loans issued and have adequate risk management and customer assessment policies in place to minimise defaults.

Access to funding

To be able to lend money on credit to their customers, credit card issuers must have access to a reliable source of funding that allows them to price their products competitively and generate a sufficient profit margin.

Superior financial management and debt management

A firm's management of its interest rate risks is crucial to its survival. It must have the ability to manage debts accruing from funds borrowed, which change with interest rates.

Production of goods currently favoured by the market

Firms should focus on customers' needs. Carefully developing and introducing products and services that cater for the changing needs of customers helps stimulate demand and revenue.

Competitive Landscape

Cost Structure Benchmarks

Industry profitability is determined by the spread between the interest charged to the clients and the interest paid on funds. Profitability is expected to improve over the five years through 2014-15. This is attributable to lower wholesale funding costs and lower interest paid on deposits. Since interest charged on credit card balances is relatively constant, a decrease in funding costs reduces margins.

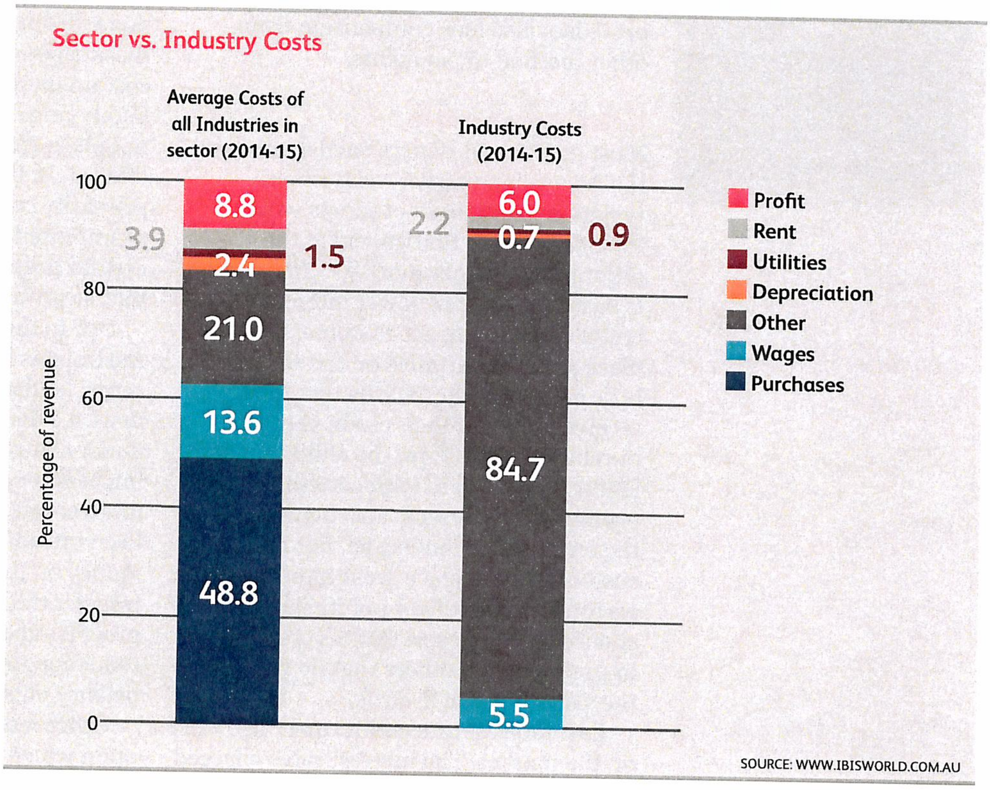
Interest expense

The single largest cost faced by the Credit Card Issuance industry is interest expense. This is determined by the amount, type and maturity of liabilities, market interest rate conditions and competition in lending markets. The most significant item of interest expenses comes from domestic deposits, while the other components of interest expenses include those relating to foreign deposits, reserve funds purchased, trading liabilities and other borrowed money, and subordinated notes and debentures. With the Reserve Bank of Australia reducing official interest rates to historic lows, rates paid on deposits also decreased. Meanwhile, stabilising financial markets have resulted in lower wholesale funding costs. Overall, interest expense is expected to decline as a portion of revenue over the five years through 2014-15.

Wages

The industry's largest non-interest expense is labour costs. The profitability of a lender can be directly related to the quality of its employees and customer satisfaction. As a result, staff expenses are expected to remain high. However, because the roles performed by the staff are a mix between a teller and a relations manager, the average wage in the industry is lower than in the overall Finance subdivision.

Banks and other lenders employ a large number of salespeople and customer service personnel across their network of branch offices and call centres. In a bid to reduce wage costs, the industry has attempted to rationalise distribution networks, increase reliance



Competitive Landscape

Cost Structure Benchmarks continued

on technology, employ more part-time staff and outsource functions. Therefore, wages are expected to decline as a portion of revenue over the five years through 2014-15.

Provision for bad and doubtful debts

During the economic downturn, the provision for bad and doubtful debts as a proportion of total industry revenue rose sharply and overtook wages as the industry's largest non-interest expense. In the wake of the financial crisis, highly indebted households found it difficult to meet their debt obligations. The growth in unemployment also contributed to this. As a result, the number of defaults on lenders' balance sheets increased, as a growing proportion of their customers defaulted on their loan repayments. In particular, households were forfeiting on their credit card debt as they focused primarily on meeting their mortgage repayments so as not to lose their home.

Provision for bad and doubtful debts is expected to decrease over the five years through 2014-15. This is partially attributed to falling unemployment rates and a more deleveraged financial position of households. Therefore, it is easier for consumers to meet their balance repayments.

Other

There are various other expenses related to the industry, including professional fees and commissions, advertising, data processing and telecommunication fees. As competition has intensified in the industry, IBISWorld expects that these costs have escalated in terms of dollar value. However, their importance to the industry cost structure, as a proportion of total revenue, has remained low.

Basis of Competition

Level & Trend

Competition in this industry is **High** and the trend is **Increasing**

The level of competition is high within industry. Operators compete on fees and product customisation. Credit card providers also face competition from other method of payments.

Internal competition

Most credit card issuers participating in the Australian market today offer a variety of credit card products with various features that appeal to the different consumer markets. Competition is based on offering lower interest rates credit cards to attract customers who place great importance on the cost of borrowing and the awards that they receive for using their credit cards for purchases. Therefore, the affiliation of a lender's credit card with certain promotions or brands also plays a role in the competitive landscape. For instance, customers who place great importance on earning frequent flyer points directly may choose to purchase a Qantas credit card in preference to others that do not offer the same types of awards.

Low interest rate credit cards also exist on the market. The interest rates charged on these cards are lower than the standard rate. However, customers usually do not receive any awards or points from purchases made. Therefore, these types of cards are aimed at customers whose demand for credit is highly price sensitive and those who do not place great emphasis on awards offered. In this sense, competition is primarily based around price, as represented by interest rates and to a certain degree, the awards and points that a cardholder is able to accrue.

Due to the high levels of debt Australians have accrued on their credit cards, lenders have responded to the market's demand to bring these debts under control. In the process, introductory, interest free or reduced interest rate balance transfer periods have been introduced. A customer owing money on their credit card is able to transfer the balance to another credit card provider and receive an exemption or a reduction for interest they accrue on the balance outstanding for a specified period.

Other features of credit card products upon which competition is based are fees

Competitive Landscape

Basis of Competition continued

and charges, and credit card limits. Customers who do not have the earning capacity to receive approval of the desired credit card limit from a specific credit card provider may choose to purchase a credit card from another lender who is willing to take on more risk and issue them a credit card with a higher limit. There are numerous fees attached to credit cards, such as annual fees, which can also affect the demand for a lender's product.

The credit card market in Australia is very dynamic and continues to change constantly. With changes, the basis of competition will change, however interest rates will remain the main competitive tool of the industry. This is because interest rates represent the main component of cost to borrowers and is the key determining factor of demand.

External competition

Credit card issuers face intense competition from alternative payment methods such as debit cards, cheques and cash. Credit cards have benefited from technology and attractive rewards programs to become one of the dominant forms of payment besides cash. The increase in e-commerce greatly helped increase the use of credit cards over the past five years. The use of cash and cheques in conducting transactions online or over the phone has proven to be far more difficult and unreliable, increasing the popularity of credit card payments in such transactions. Credit cards have also used promotions and rewards programs to give consumers an incentive to use cards for purchases instead of cash or cheques.

Barriers to Entry

Level & Trend
Barriers to Entry in this industry are **High and Steady**

The industry has high barriers to entry. To be able to issue credit cards, a lending institution needs to have access to capital that it can use to finance its lending activity. Therefore, a firm considering entry into the Credit Card Issuance industry in Australia must first establish a reliable source of funding. The cost of funding is important because it determines how competitively priced the new lender's products will be and the profitability of the business.

Those entrants that are able to overcome the funding issues must also have adequate distribution channels and the geographic reach to be able to compete successfully for business. Existing firms have well-established retail outlets spread throughout the country, online, phone and mailing services that enable their customers to access their products and services easily. Establishing such networks does not only require large sums of capital to be invested but time also. With time, brands acquire recognition and loyalty that attract customers. This creates another barrier to entry.

Although lenders continue to rely on branches for delivering their products and services as they have increased the focus on customer satisfaction, technology has opened the door to new modes of delivery. Credit card products can now be sold through phone, internet and mail services. However, this requires potential entrants to make the necessary investment in technology to establish such infrastructure. These costs are substantial and can therefore limit the ability of new firms to enter the market.

Barriers to Entry checklist	Level
Competition	High
Concentration	Medium
Life Cycle Stage	Growth
Capital Intensity	Medium
Technology Change	High
Regulation & Policy	Heavy
Industry Assistance	Low

SOURCE: WWW.IBISWORLD.COM.AU

Competitive Landscape

Industry Globalisation

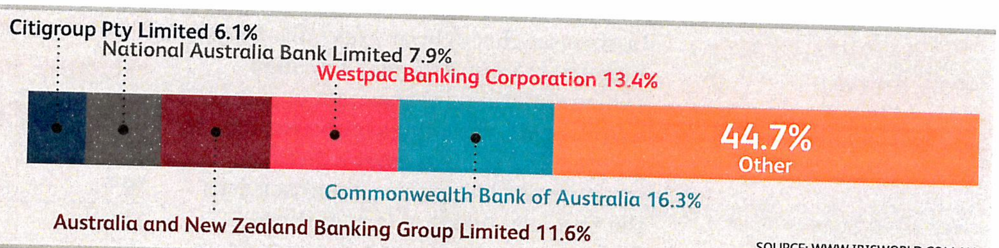
Level & Trend
Globalisation in this industry is **Low** and the trend is **Increasing**

The level of globalisation in the Australian Credit Card Issuance industry is considered low. Domestic banks undertake more than 80.0% of credit card lending that is held on Australian books of domestic and foreign banks. Foreign banks dominating the Australian market for credit card lending include Citigroup Pty Limited and HSBC Bank Australia Limited. Furthermore, Australian banks and other lenders also issue credit cards in foreign markets: either directly or through their associates, which adds to the level of globalisation of the industry. IBISWorld estimates that this trend will continue into the future as more foreign operators enter the domestic market and domestic lenders expand into foreign markets.

Major Companies

Commonwealth Bank of Australia | Westpac Banking Corporation | National Australia Bank Limited | Citigroup Pty Limited | Other Companies

Major players
(Market share)



SOURCE: WWW.IBISWORLD.COM.AU

Player Performance

Commonwealth Bank of Australia
Market share: 16.3%
Industry Brand Names
Bankwest

The Commonwealth Bank of Australia (CBA) listed on the ASX on 12 September 1991 following the sell down of equity by the Commonwealth of Australia. In 1991, CBA also acquired the State Bank of Victoria from the Victorian Government. In July 1996, the Commonwealth Government sold its remaining shareholding in CBA.

CBA provides a full range of financial products and services, including retail, business and investment banking, insurance, broking services and funds management. The bank provides its customers with the largest ATM, EFTPOS, branch and agency network in Australia.

CBA completed its acquisition of Bankwest on 19 December 2008 for a reported $2.1 billion. This transaction helped increase the market presence of CBA in Western Australia, having acquired 135 retail branches in total, with about 90 located in Western Australia. As a result, its presence in the region more than doubled, with a total of approximately 180 CBA and Bankwest branches. Another positive occurrence for the company has been the expansion of its customer base. There are now an extra 960,000 retail customers and 26,000 business clients served under the Commonwealth Bank brand.

Commonwealth Bank of Australia – industry segment performance*

Year	Revenue ($ million)	(% change)
2009-10	1,109.6	8.7
2010-11	1,263.3	13.9
2011-12	1,310.6	3.7
2012-13	1,556.6	18.8
2013-14	1,596.2	2.5
2014-15	1,723.5	8.0

*Estimate
SOURCE: AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY AND IBISWORLD

Financial performance
CBA industry segment revenue is forecast to grow at an annualised 9.2% over the five years through 2014-15 to reach $1.7 billion. This growth is expected to outperform the overall industry, which is partially attributable to the acquisition of Bankwest. As demand for credit has dropped over the past five years, CBA has managed to attain more market share as smaller players and foreign banks were forced out of the industry.

Player Performance

Westpac Banking Corporation
Market share: 13.4%
Industry Brand Names
St. George

Westpac Banking Corporation is an Australian publicly listed banking corporation. Following its acquisition of St. George Bank in December 2008, it increased its market share of the Australian credit card lending market. Westpac offers a full range of banking and financial services, including consumer banking, business banking, asset financing via Australian Guarantee Corporation, investment management, funds management, insurance and institutional banking.

Westpac divides its operations into five main segments. The business and consumer banking segment provides a range of products and services to consumers and small- to medium-size

Major Companies

Player Performance continued

businesses throughout Australia. The BT Financial Group segment provides superannuation, life insurance, managed investments, discount securities broking and portfolio management services. The institutional banking segment services the financial needs of corporations, institutions and government customers operating in Australia and New Zealand. This segment provides specialised service and advice in debt and equity underwriting, financial structuring, foreign exchange markets, trade finance, international payments, international cash management, project finance, property, and mergers and acquisitions. The New Zealand banking division offers a full range of retail banking services, commercial banking products, and wealth management services. The other operations division comprises group treasury and the Pacific banking operations, which include Papua New Guinea, Fiji, Vanuatu, Cook Islands, Tonga, the Solomon Islands and Samoa.

The announcement of the acquisition of St. George Bank by Westpac was made in May 2008, with the ACCC's approval of the transaction released in August. The transfer of all St. George ordinary shares to Westpac (worth $15.0 billion)

Westpac Banking Corporation – industry segment performance*

Year	Revenue ($ million)	(% change)
2009-10	1,199.3	27.8
2010-11	1,267.5	5.7
2011-12	1,255.7	-0.9
2012-13	1,254.3	-0.1
2013-14	1,279.7	2.0
2014-15	1,418.4	10.8

*Estimate

SOURCE: ANNUAL REPORT AND IBISWORLD

completed the deal on 2 December 2008. This represented the merger of Australia's second- and fifth-largest banks.

Financial performance

Industry segment revenue is forecast to grow at an annualised 3.4% over the five years through 2014-15 to reach $1.4 billion. This is expected to underperform the overall industry. Most of this growth can be attributed to the acquisition of St. George Bank. The organic growth rates are anticipated to be much lower over the same period.

Player Performance

Australia and New Zealand Banking Group Limited
Market share: 11.6%

Australia and New Zealand Banking Group Limited (ANZ) is an Australian, publicly listed company that traces its roots back to 1835 when it commenced trading in Sydney as the Bank of Australasia. ANZ differentiates itself from its domestic peers by its representation in over 40 countries. The Australian operation generates approximately 66.0% of total revenue and 67.0% of net profit before tax. ANZ provides a full range of banking and financial services, including personal banking, business banking, investment banking, funds management and asset finance.

The company's three divisions are personal, institutional and New Zealand.

Australia and New Zealand Banking Group Limited – industry segment performance*

Year	Revenue ($ million)	(% change)
2009-10	1,028.6	6.8
2010-11	1,176.5	14.4
2011-12	1,146.0	-2.6
2012-13	1,169.0	2.0
2013-14	1,198.8	2.5
2014-15	1,223.6	2.1

*Estimated consolidated results

SOURCE: AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY AND IBISWORLD

Major Companies

Player Performance continued

The personal division integrates all of ANZ's consumer finance, retail banking and small business activities, with Esanda, small business and the Pacific added to retail banking, mortgages, consumer finance, banking products, investment and insurance, and rural and regional banking. The institutional segment integrates all corporate and investment banking businesses. It comprises business banking; corporate banking; and the institutional businesses of trade and transaction services, corporate and structured finance markets, the client relationship group and debt products group. The New Zealand division includes ANZ retail, and National Bank of New Zealand (retail, rural and corporate).

Financial performance

Industry segment revenue is forecast to grow at an annual compound rate of 3.5% over the five years through 2014-15 to reach $1.2 billion. This is weaker than the growth of the overall industry, with the company performing poorly relative to its main competitors. This is partially attributable to ANZ's more international strategy. Therefore, there is less focus on domestic markets.

Player Performance

National Australia Bank Limited
Market share: 7.9 %

National Australia Bank Limited (NAB) is an Australian publicly listed company that provides a full range of banking and financial products, including retail, business and investment banking, insurance and funds management. The bank has a large international exposure. It operates in about 15 countries, with the majority of overseas earnings generated from Europe, New Zealand, the United States and Asia. NAB's reporting segments include Australia, the United Kingdom and New Zealand (all of which comprise banking and wealth management in their respective regions).

The Australian division provides a range of financial products and services to retail customers throughout Australia. The segment offers deposit, lending and payment facilities through its branch network, ATMs and online. The business also includes the wealth management operations of MLC Limited and the group's activities in Asia. Major business activities include financial planning, private banking, insurance, portfolio implementation systems, superannuation and investment solutions.

National Australia Bank Limited – industry segment performance*

Year	Revenue ($ million)	(% change)
2009-10	663.5	3.9
2010-11	773.7	16.6
2011-12	782.3	1.1
2012-13	777.1	-0.7
2013-14	796.8	2.5
2014-15	834.9	4.8

*Estimate

SOURCE: AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY AND IBISWORLD

Financial performance

Industry segment revenue is forecast to grow at an annual compound rate of 4.9% over the five years through 2014-15 to reach $834.9 million. This performance is expected to be in line with the overall industry growth in nominal terms. Similar to ANZ, NAB has a larger international exposure and therefore less presence in the domestic credit card market.

Major Companies

Player Performance

Citigroup Pty Limited
Market share: 6.1 %

Citigroup Pty Limited is one of the largest financial services companies in the world, with about 200.0 million customer accounts in more than 100 countries. Citigroup's presence in the Australian banking market extends back to 1971, when First National City Bank acquired 21.7% of the Industrial Acceptance Corporation (IAC). The holdings of IAC were increased to 100.0% in 1977. Citigroup was granted a full banking licence in Australia in 1985. In December 2005, the bank changed its name from Citibank Pty Limited to Citigroup Pty Limited.

Citigroup operates in the Credit Card Issuance industry through its consumer bank business division. Among the products and services offered are credit cards, including co-branded cards and other personal lines of credit. In August 2013, the company had $4.3 billion of loans and advances held on its Australian books relating to credit cards. This makes it the largest foreign bank issuer of credit cards in the Australian market and the fifth-largest overall, falling short of the lending undertaken by the four major banks.

Citigroup Pty Limited – industry segment performance**

Year*	Revenue ($ million)	(% change)
2009	496.4	9.3
2010	589.2	18.7
2011	655.8	11.3
2012	641.5	-2.2
2013	619.8	-3.4
2014	621.1	0.2

*Year end December **Estimate
SOURCE: AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY AND IBISWORLD

Financial performance

Industry segment revenue is forecast to grow at an annualised 4.6% over the five years through December 2014 to reach $621.1 million. This is expected to underperform the overall industry in nominal terms. Lower performance can be attributed to the fact that the big four banks hold a larger market share in mortgage lending. With consumers refinancing their homes over the past five years, many credit cards were linked to the newly refinanced mortgages, thus giving the big four banks a larger market share.

Other Companies

HSBC Bank Australia Limited

Estimated market share: Less than 1.3 %

HSBC Bank Australia Limited is a subsidiary of HSBC Holdings PLC. It has its origins in Hong Kong stemming back more than 130 years. Today, HSBC Holdings has more than 9,500 offices in 85 countries and territories worldwide. It is headquartered in London and is classified as one of the world's leading banking and financial services organisations.

In Australia, the HSBC Group operates through a network of 35 branches and offices. It operates in the Credit Card Issuance industry through its personal banking division, which offers personal banking services, financial planning and consumer finance. This division conducts credit card issuing and lending to households and ABN holders. As of September 2014, the bank had $869.0 million worth of loans and advances held on its Australian books relating to credit cards.

Operating Conditions

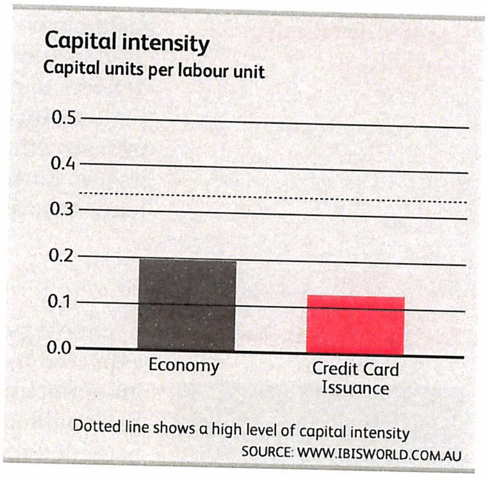
Capital Intensity | Technology & Systems | Revenue Volatility
Regulation & Policy | Industry Assistance

Capital Intensity

Level
The level of capital intensity is **Medium**

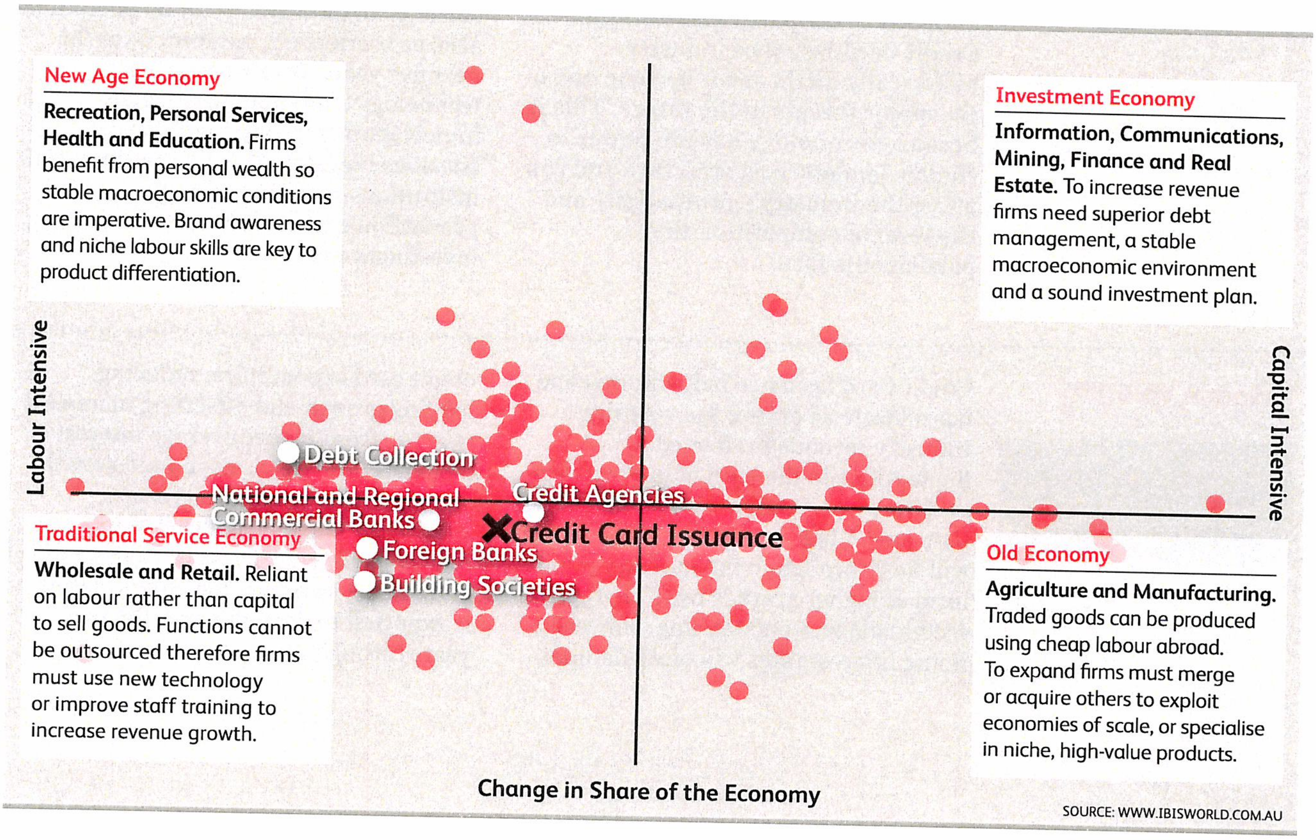
The industry has a medium level of capital intensity. This means that for every dollar spent on capital, a further $7.85 is spent on labour. Capital intensity is medium primarily because of a high emphasis on customer service.

Customer service is fundamental to the success of any credit card issuing business. This is because credit cards are a complicated product that many customers do not understand. Credit cards have different interest rates, fees, rewards and many other features attached to them that make it difficult for direct comparisons to be made. Furthermore, because of the significance of a credit card purchase to an individual or a business, companies need to employ knowledgeable staff able to match the right type of credit card to the customer. Staff must also be able to carry out the administrative and processing tasks associated with the issuance of credit cards.



While the cost structure of this industry suggests that the industry spends far more of its revenue financing labour costs, it gives a somewhat misleading representation of just how much financial institutions spend on capital expenditure items, most notably

Tools of the Trade: Growth Strategies for Success



Operating Conditions

Capital Intensity continued

technology. Technology is increasingly used in administration, processing and delivery to reduce labour costs. This requires investment in technological infrastructure, and equipment to enable its use. Furthermore, banks and other lenders have to invest in research and development of that technology to improve efficiency, while rapid technological changes mean that they have to upgrade equipment at regular time intervals. Overall, capital intensity is expected to increase over the five years through 2019-20.

Technology & Systems

Level
The level of Technology Change is **High**

Technological developments are expected to become both a threat and an opportunity for lenders. Technology has enabled existing services to be provided more efficiently, has lowered entry barriers and changed the economics of delivery. Technology has the potential to increase the availability and reduce the cost of information. This is a powerful force as it reinforces and challenges one of lenders' core competencies: information and knowledge. Furthermore, it reduces the dependence on branch networks as the core delivery mechanism. The advantages that technology has afforded to the participants in the Credit Card Issuance industry historically might see it become one of the major threats in the future. This is because technology has the power to change lenders' cost structure and can affect the industry's profitability and the level of competition that participants face.

The heavy reliance on technology, and its continued growth and penetration into the industry, has affected pricing structures and has enabled distribution of products to occur through new channels. Lenders are able to use the internet, phone and mail to serve their customers, reducing the importance on having established retail outlets. This gives them greater reach, enabling access to customers without the need to have a physical presence in those regions via branches and offices. Therefore, costs of delivery are far lower. Although this is a positive for the participants in the Credit Card Issuance industry, it gives potential entrants an incentive to set up operations also, as barriers are reduced. Over the next five years, IBISWorld expects technology to play an increasingly important role in the Credit Card Issuance industry. This will see financial institutions spending a greater proportion of their revenue on financing investment in IT.

Revenue Volatility

Level
The level of Volatility is **Low**

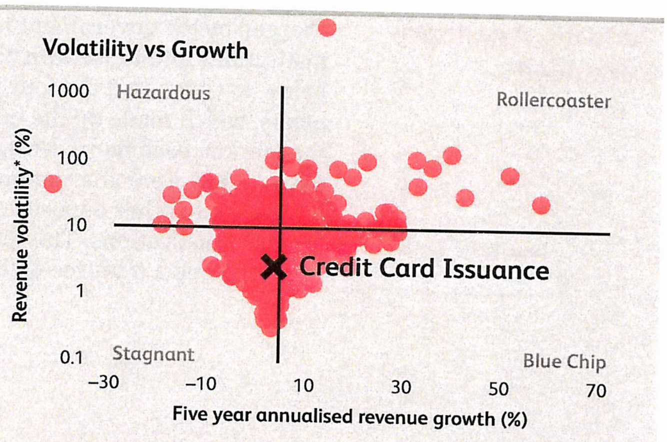
Credit Card Issuance industry revenue has a low level of revenue volatility. Industry revenue is affected by fluctuations in the level of interest rates and the overall consumer spending patterns. A higher level of interest rates will flow through to the industry in the form of higher average rates charged to credit balances outstanding. However, rising interest rates will often dampen credit card expenditure, reducing lending growth and offsetting increased revenue from higher average interest rates being charged. Economic growth will generally result in increased spending for any given level of interest rates, which typically has a positive effect on industry revenue. Revenue volatility is expected to decrease over the five years through 2014-15.

Operating Conditions

Revenue Volatility continued

A higher level of revenue volatility implies greater industry risk. Volatility can negatively affect long-term strategic decisions, such as the time frame for capital investment.

When a firm makes poor investment decisions it may face underutilised capacity if demand suddenly falls, or capacity constraints if it rises quickly.



* Axis is in logarithmic scale

SOURCE: WWW.IBISWORLD.COM.AU

Regulation & Policy

Level & Trend
The level of Regulation is **Heavy** and the trend is **Steady**

Supervision of banks and other authorised deposit-taking institutions (ADIs) were transferred from the RBA to the Australian Prudential Regulation Authority (APRA) on the 1 July 1998. RBA remains responsible for monetary policy as well as ensuring the stability of the Australian financial system.

ADIs are authorised under the Banking Act (1959) and are subject to the same prudential standards, apart from certain criteria, that corporations using the names bank, building society and credit union have to comply with. As a part of its responsibility in setting prudential standards, APRA requires ADIs to lodge reports at regular intervals as a basis of the supervisory assessment they conduct.

Periodic on-site visits may also be undertaken by APRA to assess asset quality and market risk of an ADI. Further issues addressed include capital adequacy, liquidity, sustainability of earnings, loan losses and concentration of risk, maturity of assets and liabilities, exposures to equity associations and overseas operations undertaken.

Other bodies regulating components of the finance sector include the Australian Financial Markets Association, the Australian Banking Industry Ombudsman, the Australian Payments Clearing Association, the Australian Consumer and Competition Commission, ABACUS and the Australian Bankers Association.

Industry Assistance

Level & Trend
The level of Industry Assistance is **Low** and the trend is **Steady**

The Credit Card Issuance industry in Australia does not receive any tariff protection. No institution other than a licensed bank is permitted to hold itself out to the public as being a bank. The power to issue and to revoke a banking licence is solely given to APRA under the Banking Act 1959. APRA has the duty to protect savers depositing funds with Australian incorporated banks and other deposit-taking institutions.

The Credit Card Issuance industry has been provided assistance through the introduction of the Federal Government Guarantee Scheme, enacted to restore confidence in Australia's financial system. Under the scheme, which formally commenced on 28 November 2008, Australian banks received government backing on retail deposits of less than $1.0 million free of charge. This was intended to reassure depositors that their funds are in safe hands in times of considerable turbulence and economic instability. However, for deposits in excess of $1.0 million, a fee of 1.5% was

Operating Conditions

Industry Assistance continued

charged by the government to unrated institutions and those with a rating below A. Given that the four major banks, which made up the majority of the market, each had a rating higher than A, they were at a comparative advantage to other deposit-taking financial institutions. This is because they incurred a 0.7% fee on large deposits, while less credit-worthy deposit-taking financial institutions with a credit rating of A or less were charged a fee of 1.5%. The Federal Government Guarantee Scheme was phased out in March 2010. Assistance to the industry has also been provided with regulators banning excessively high fees charged by merchants for credit card use.

Key Statistics

Industry Data

	Revenue ($m)	Industry Value Added ($m)	Establishments	Enterprises	Employment	Exports	Imports	Wages ($m)	Total Assets ($m)
2005-06	7,664.6	1,463.3	6,561	212	9,284	--	--	575.4	43,949.7
2006-07	8,361.2	1,562.6	6,711	212	9,328	--	--	661.5	47,256.4
2007-08	9,134.0	1,359.3	6,832	203	9,119	--	--	617.3	49,182.3
2008-09	9,000.9	1,121.7	6,713	185	8,525	--	--	581.5	49,156.9
2009-10	9,262.8	1,190.3	6,758	166	8,407	--	--	579.2	50,188.7
2010-11	9,457.5	1,184.4	6,876	161	8,336	--	--	538.6	49,891.8
2011-12	9,718.4	1,246.1	6,994	156	8,461	--	--	545.0	50,279.1
2012-13	10,245.1	1,258.6	7,056	150	8,894	--	--	572.2	50,833.1
2013-14	10,327.0	1,238.6	7,068	142	8,819	--	--	567.3	49,791.9
2014-15	**10,573.2**	**1,278.6**	**7,069**	**141**	**8,828**	--	--	**580.8**	**53,350.4**
2015-16	10,880.4	1,418.4	7,190	141	8,925	--	--	592.9	N/A
2016-17	11,635.3	1,547.7	7,148	139	8,886	--	--	609.5	N/A
2017-18	11,716.8	1,600.1	7,172	143	8,938	--	--	623.0	N/A
2018-19	11,813.9	1,640.3	7,203	145	9,029	--	--	632.0	N/A
2019-20	12,468.0	1,692.2	7,232	147	9,102	--	--	645.3	N/A
Sector Rank	**10/19**	**14/19**	**11/19**	**18/19**	**14/19**	**N/A**	**N/A**	**14/19**	**2/3**
Economy Rank	**124/783**	**252/782**	**109/783**	**564/782**	**318/782**	**N/A**	**N/A**	**287/782**	**14/22**

Annual Change

	Revenue (%)	Industry Value Added (%)	Establishments (%)	Enterprises (%)	Employment (%)	Exports (%)	Imports (%)	Wages (%)	Total Assets (%)
2006-07	9.1	6.8	2.3	0.0	0.5	N/A	N/A	15.0	7.5
2007-08	9.2	-13.0	1.8	-4.2	-2.2	N/A	N/A	-6.7	4.1
2008-09	-1.5	-17.5	-1.7	-8.9	-6.5	N/A	N/A	-5.8	-0.1
2009-10	2.9	6.1	0.7	-10.3	-1.4	N/A	N/A	-0.4	2.1
2010-11	2.1	-0.5	1.7	-3.0	-0.8	N/A	N/A	-7.0	-0.6
2011-12	2.8	5.2	1.7	-3.1	1.5	N/A	N/A	1.2	0.8
2012-13	5.4	1.0	0.9	-3.8	5.1	N/A	N/A	5.0	1.1
2013-14	0.8	-1.6	0.2	-5.3	-0.8	N/A	N/A	-0.9	-2.0
2014-15	**2.4**	**3.2**	**0.0**	-0.7	**0.1**	**N/A**	**N/A**	**2.4**	**7.1**
2015-16	2.9	10.9	1.7	0.0	1.1	N/A	N/A	2.1	N/A
2016-17	6.9	9.1	-0.6	-1.4	-0.4	N/A	N/A	2.8	N/A
2017-18	0.7	3.4	0.3	2.9	0.6	N/A	N/A	2.2	N/A
2018-19	0.8	2.5	0.4	1.4	1.0	N/A	N/A	1.4	N/A
2019-20	5.5	3.2	0.4	1.4	0.8	N/A	N/A	2.1	N/A
Sector Rank	**14/19**	**12/19**	**15/19**	**16/19**	**14/19**	**N/A**	**N/A**	**12/19**	**1/3**
Economy Rank	**373/783**	**298/782**	**463/783**	**545/782**	**510/782**	**N/A**	**N/A**	**328/782**	**9/22**

Key Ratios

	IVA/Revenue (%)	Imports/Demand (%)	Exports/Revenue (%)	Revenue per Employee ($'000)	Wages/Revenue (%)	Employees per Est.	Average Wage ($)	Share of the Economy (%)
2005-06	19.09	N/A	N/A	825.57	7.51	1.42	61,977.60	0.12
2006-07	18.69	N/A	N/A	896.36	7.91	1.39	70,915.52	0.12
2007-08	14.88	N/A	N/A	1,001.64	6.76	1.33	67,693.83	0.10
2008-09	12.46	N/A	N/A	1,055.82	6.46	1.27	68,211.14	0.08
2009-10	12.85	N/A	N/A	1,101.80	6.25	1.24	68,894.97	0.08
2010-11	12.52	N/A	N/A	1,134.54	5.69	1.21	64,611.32	0.08
2011-12	12.82	N/A	N/A	1,148.61	5.61	1.21	64,413.19	0.08
2012-13	12.28	N/A	N/A	1,151.91	5.59	1.26	64,335.51	0.08
2013-14	11.99	N/A	N/A	1,170.99	5.49	1.25	64,327.02	0.08
2014-15	**12.09**	**N/A**	**N/A**	**1,197.69**	**5.49**	**1.25**	**65,790.67**	**0.08**
2015-16	13.04	N/A	N/A	1,219.09	5.45	1.24	66,431.37	0.09
2016-17	13.30	N/A	N/A	1,309.40	5.24	1.24	68,591.04	0.09
2017-18	13.66	N/A	N/A	1,310.90	5.32	1.25	69,702.39	0.09
2018-19	13.88	N/A	N/A	1,308.44	5.35	1.25	69,996.68	0.09
2019-20	13.57	N/A	N/A	1,369.81	5.18	1.26	70,896.51	0.09
Sector Rank	**19/19**	**N/A**	**N/A**	**2/19**	**18/19**	**15/19**	**6/19**	**14/19**
Economy Rank	**747/782**	**N/A**	**N/A**	**51/782**	**742/782**	**750/782**	**306/782**	**252/782**

Figures are inflation-adjusted 2015 dollars. Rank refers to 2015 data.

SOURCE: WWW.IBISWORLD.COM.AU

Jargon & Glossary

Industry Jargon

CREDIT RATING A rating of an individual's or business' financial history, reflecting their ability to take on and service debt.

LOAN LOSS PROVISIONS An amount set aside as an allowance for bad debts (i.e. debts where the customer defaults or where the terms of the loan need to be renegotiated).

REVOLVING CREDIT BALANCE Balance outstanding on a credit card that is rolled over to the next month, where interest charges accrue over the period.

SECURITISATION Involves the purchase of assets by a special purpose vehicle, which uses the asset's cash flows to service interest payments on asset-backed securities that have been sold to investors.

TIER-1 CAPITAL Most liquid form of capital, usually in the form of cash reserves and shareholders equity.

IBISWorld Glossary

BARRIERS TO ENTRY High barriers to entry mean that new companies struggle to enter an industry, while low barriers mean it is easy for new companies to enter an industry.

CAPITAL INTENSITY Compares the amount of money spent on capital (plant, machinery and equipment) with that spent on labour. IBISWorld uses the ratio of depreciation to wages as a proxy for capital intensity. High capital intensity is more than $0.333 of capital to $1 of labour; medium is $0.125 to $0.333 of capital to $1 of labour; low is less than $0.125 of capital for every $1 of labour.

CONSTANT PRICES The dollar figures in the Key Statistics table, including forecasts, are adjusted for inflation using the current year (i.e. year published) as the base year. This removes the impact of changes in the purchasing power of the dollar, leaving only the 'real' growth or decline in industry metrics. The inflation adjustments in IBISWorld's reports are made using the Australian Bureau of Statistics' implicit GDP price deflator.

DOMESTIC DEMAND Spending on industry goods and services within Australia, regardless of their country of origin. It is derived by adding imports to industry revenue, and then subtracting exports.

EMPLOYMENT The number of permanent, part-time, temporary and casual employees, working proprietors, partners, managers and executives within the industry.

ENTERPRISE A division that is separately managed and keeps management accounts. Each enterprise consists of one or more establishments that are under common ownership or control.

ESTABLISHMENT The smallest type of accounting unit within an enterprise, an establishment is a single physical location where business is conducted or where services or industrial operations are performed. Multiple establishments under common control make up an enterprise.

EXPORTS Total value of industry goods and services sold by Australian companies to customers abroad.

IMPORTS Total value of industry goods and services brought in from foreign countries to be sold in Australia.

INDUSTRY CONCENTRATION An indicator of the dominance of the top four players in an industry. Concentration is considered high if the top players account for more than 70 % of industry revenue. Medium is 40 % to 70 % of industry revenue. Low is less than 40 %.

INDUSTRY REVENUE The total sales of industry goods and services (exclusive of excise and sales tax); subsidies on production; all other operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); and capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.

INDUSTRY VALUE ADDED (IVA) The market value of goods and services produced by the industry minus the cost of goods and services used in production. IVA is also described as the industry's contribution to GDP, or profit plus wages and depreciation.

INTERNATIONAL TRADE The level of international trade is determined by ratios of exports to revenue and imports to domestic demand. For exports/revenue: low is less than 5 %; medium is 5 % to 20 %; and high is more than 20 %. Imports/domestic demand: low is less than 5 %; medium is 5 % to 35 %; and high is more than 35 %.

LIFE CYCLE All industries go through periods of growth, maturity and decline. IBISWorld determines an industry's life cycle by considering its growth rate (measured by IVA) compared with GDP; the growth rate of the number of establishments; the amount of change the industry's products are undergoing; the rate of technological change; and the level of customer acceptance of industry products and services.

NONEMPLOYING ESTABLISHMENT Businesses with no paid employment or payroll, also known as nonemployers. These are mostly set up by self-employed individuals.

PROFIT IBISWorld uses earnings before interest and tax (EBIT) as an indicator of a company's profitability. It is calculated as revenue minus expenses, excluding interest and tax.

VOLATILITY The level of volatility is determined by averaging the absolute change in revenue in each of the past five years. Volatility levels: very high is more than ±20 %; high volatility is ±10 % to ±20 %; moderate volatility is ±3 % to ±10 %; and low volatility is less than ±3 %.

WAGES The gross total wages and salaries of all employees in the industry. Benefits and on-costs are included in this figure.

Disclaimer

Consume
outcome
group.