



BUSINESS COUNCIL
OF CO-OPERATIVES AND MUTUALS

Business Council of Co-operatives and Mutuals

Submission to the Senate Economics
References Committee inquiry into matters
relating to credit card interest rates

August 2015

Cover Letter

The Business Council of Co-operatives and Mutuals (BCCM) welcomes the opportunity to make a submission to the inquiry into matters relating to credit card interest rates, and thanks the Committee for their consideration of this important matter.

The BCCM works closely with its customer-owned bank members and supports the submission made by the peak body for mutual banks, credit unions, and building societies, the Customer Owned Banking Association (COBA) to this inquiry.

The BCCM would welcome the opportunity to discuss any matters raised in this submission should the Committee require.

Yours faithfully,

Melina Morrison
Chief Executive Officer

25 August 2015

About the Business Council of Co-operatives and Mutuals

The BCCM is the peak cross-sector body for co-operatives, mutuals and member-owned businesses. Its purpose is to promote recognition of the important role of co-operative and mutual businesses in the economy and community development of Australia.

The sector represented by the BCCM is significant to the Australian economy. Including member owned superannuation funds; the contribution of the sector to GDP in 2012/2013 was 7 per cent.¹

¹“2014 National Mutual Economy Report”, Business Council of Co-operatives and Mutuals (2014)

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1. Key messages and recommendations

Customer owned banks have a record of offering competitive low interest rate credit cards relative to the market and a history of responsible banking practices.

The BCCM recommends:

That the Committee recommend the promotion of the alternative offering of values based banks via financial literacy programmes.

There is sufficient choice in the market, but insufficient consumer awareness of credit card offerings.

The BCCM recommends:

That the Committee recommend the development of a comparison tool incorporating real costs of credit card to the consumer.

2. About this submission

This submission is made by the Business Council of Co-operatives and Mutuals (BCCM), on behalf of Australia's co-operative and mutual businesses and is focused on promoting domestic competition and consumer outcomes in the Australian financial system via information, education and financial literacy and prompt implementation of the FSI recommendations to improve banking competition.

The purpose of this submission is to support the submissions to this inquiry from the members of the BCCM, the Customer Owned Banking Association and Bank Australia (formerly bankmecu) and to highlight the importance of the customer and member-owned banking model that promotes a responsible approach to banking and customer choice.

3. Alignment of purpose between industry bodies representing the sector

The Customer Owned Banking Association (COBA) is the peak body for customer-owned banking institutions: credit unions, building societies and mutual banks. Collectively the sector has \$92 billion in assets and has the largest share of the household deposits market outside the four major banks. The customer-owned banking sector comprises 75 credit unions, 12 mutual banks and 6 mutual building societies serving more than four million Australians.

The Business Council of Co-operatives and Mutuals is the national association, led by chief executives, of Australia's leading co-operative and mutual businesses. The BCCM represents the diverse range of member and customer owned businesses in all industry sectors including banking, insurance, agriculture, motoring, retail, health and housing. Eight in ten Australians are members of at least one co-operative or mutually owned organisation. Collectively these businesses have more than 13.5 million members.²

²Denniss, R & Baker, D (2012) "Who knew Australians were so co-operative: The size and scope of mutually owned co-ops in Australia", The Australia Institute. Online at: <http://www.tai.org.au/node/1902>

4. Customer and member-owned banks have a record of offering competitive low interest rate credit cards relative to the market and a history of responsible banking practices

According to Canstar's online database, interest rates on standard credit cards offered by customer owned banking institutions are on average almost one-third lower than the major banks, with more free days and lower annual fees.³

The Canstar Online Database also shows that of the 241 personal credit cards subject to analysis, and excluding bonus or introductory rates, 19 of the 20 lowest rate cards on the market are offered by customer-owned banking institutions.⁴

Furthermore, according to EY in the 2014 Sticky Money report commissioned by the BCCM, for every dollar spent in a customer owned enterprise in Australia, a significant additional value is created for the local economy, including members, employees, suppliers and the community.⁵ This means that the benefits of these businesses go beyond consistently offering substantially lower average rates, more free days and lower annual fees compared to the big four banks.⁶

Co-operatives and mutuals aim to generate a profit or surplus and like other business enterprises they must make prudent business decisions. However, profits from the enterprise are channelled back into the business in the form of improved services or lower costs to users rather than being used to reward capital investors in the business.

Co-operatives and mutuals deliver high levels of customer service and satisfaction due to their reinvestment in the services to their members. Moreover, in communities or markets where the potential for profit taking is either low or non-existent a co-operatively owned entity is likely to be the only viable means of providing services.

In general the presence of co-operative and mutual businesses in the economy increases the contestability of products and services and improves service quality and value for money across markets, including better delivery of services to the regions. As member-owned and member-based businesses, they engage users in the control and management of the business and provide for localised accountability.

An example of customer-centric investment and innovation is the world-first mobile application developed by Defence Bank that enables its 90,000 customers to make video calls with bank staff.

The technology was developed because of the Bank's awareness of the geographical dislocation of many of its customers. Military personnel, in particular, are regularly transferred, and this application will allow them to establish a personal banking relationship even when they do not have access to a branch.

Corporate diversity is a key ingredient in de-risking the economy from market volatility, and providing for a strong, sustainable and fair market economy.

Financial mutuals being structured around member/customer ownership contribute vital diversity to a highly concentrated financial system. The importance of a diverse financial services sector and the contribution of financial mutuals to providing this diversity is discussed in detail in the submission of the BCCM to the Financial System Inquiry.⁷

³Canstar database, 22 June 2015

⁴Canstar database, 22 June 2015

⁵EY (2014) Sticky Money: Recognising the total value created by Australian Co-operatives and Mutuals. Online at: http://bccm.coop/wp/wp-content/uploads/2014/12/Sticky-Money-Report_EY-2014.pdf

⁶Based on data sourced from Canstar Online Database, 22 June 2015, quoted in the submission by the Customer Owned Banking Association to this inquiry, 14 August 2015.

⁷Submission of the BCCM to the Financial System Inquiry. Online at: http://fsi.gov.au/files/2014/04/Business_Council_of_Co-operatives_and_Mutuals.pdf

Customer and member-owned banks align their values with stakeholders' expectations of sustainable economic wellbeing. They seek to integrate a responsible approach into everything they do.

Community First Credit Union's award winning low rate visa card, has one of lowest rates on the market at 8.99% on purchases, cash advances and balance transfers. Furthermore this card was developed in partnership with one of Australia's most respected charities, the McGrath Foundation, to fund Breast Care Nurses across Australia. Half of the annual fee for this card goes to fund the initiative, generating more than \$300,000 for communities across Australia so far.

Figure 1: Comparison of Community First low rate visa card



Rate sourced from each individuals financial institution's website and reflects the standard variable interest rate current as at 16/04/2015.

Beyond Bank offers the Arts Card, allowing customers to purchase artwork on their card with a 12-month interest free period. In this way, Beyond Bank is working to support the arts industry in Australia, while offering a low everyday rate of 12.49% on cash purchases.

5. There is sufficient choice in the market, but insufficient consumer awareness of credit card offerings

Although the credit card market is delivering competitive products and choice to consumers, the challenge is ensuring that consumers are informed and empowered to act in their own interests.

Independent **consumer polling** commissioned by COBA shows low awareness by consumers about their credit card interest rate and who offers the lowest rate cards.⁸

Typically competition has a focus on extras rather than purely the interest rate. This creates ambiguity and choice for the consumer.

The BCCM supports consumer education via financial literacy to improve the credit card market.

⁸Online at: http://www.customerownedbanking.asn.au/images/stories/media-releases/2015/20150128_Essential_Report_on_Credit_Cards.pdf

Customer owned banks play an important role in providing financial literacy tools to increase the prosperity of customers and to reduce risk for the bank.

That BCCM supports the recommendation of Bank Australia (formerly bankmecu) for the inquiry to 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.

Secondly, 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.⁹

6. Conclusion

Corporate diversity is a key ingredient in de-risking the economy from market volatility, and providing for a strong, sustainable and fair market economy. Effective competition drives productivity, innovation and user focus. By shopping around and comparing the costs of banking with the different providers consumers can exercise choice.

Consumers require market information in order to act on consumer choice. Lack of transparent market information can create an information asymmetry, which acts as a brake on the exercise of consumer choice to drive a competitive market.

Education and information is a powerful tool to empower consumers to act in their own interests. The need for education about the alternative offering of co-operative and mutual businesses is discussed in detail in the submission of the BCCM to the Senate inquiry into Co-operative, Mutual and Member-owned Firms.¹⁰

⁹Submission by Bank Australia (formerly bankmecu) to this inquiry, 10 August 2015

¹⁰Submission of the BCCM to the Senate Inquiry into Co-operatives, Mutuals and Member-owned Firms: http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Cooperatives/Submissions