

Key issues for 2008 & beyond

Louise Petschler, Abacus CEO
March 2008



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Association of Building Societies and Credit Unions

2008: a crowded agenda

- > A new Government
- > Market & funding volatility
- > Industry-driven initiatives
- > Regulatory imperatives
- > Takeover "interest" & consolidation

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Some positives

Our market share is strong

Credit unions and mutual building societies place great importance on deposits as a source of funds for lending. Collectively, our sector represents the 2nd largest household deposit-taking force in Australia.

Market Share - Household Deposits December 2007



Ms Petschler said mutual societies were able to pass on better rates to customers because they were not driven by profit concerns. In contrast, most other financial organisations, such as the big banks, work to maximise shareholder profits.

Customer Satisfaction

Total Four Major Banks	71.3
Total Banks	73.9
Total Building Societies	86.9
Total Credit Unions	87.9

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Some challenges

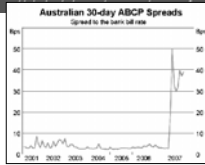
BankWest 9% p.a. Regular Saver

no ATM fees

(Ward every ATM to be a NAB ATM? Now!)
Australia and overseas, without paying a

KEY POINTS

- Loans for houses and business may soon be in short supply.
- Banks are being squeezed to tighten conditions for loans.
- Bad debts are eroding the capital of banks.



It was disappointing to read Eric Johnston's "Rivals size up response to NAB rate rise" (January 7), that created the impression incorrectly that credit unions are on the same footing as "non-bank lenders" in setting interest rates and have a "heavy reliance on wholesale funding".

Abacus, the industry association for Australia's credit unions and mutual building societies, is aware that, as a general figure, only about 20 per cent of mutual authorised deposit-taking institutions lending is sourced via wholesale markets - much less than many other institutions.

Abacus – the industry 'voice'



Members first in mutual structures

Demutualising executives are often keen to stick the knife into the model that has sustained and expanded their companies ("Mutuality simply holds a modern business back", Letters, July 27).

With \$2.3 million in retention payment arrangements to be paid to selected NIB executives within six months of the company's successful listing, perhaps the benefits of demutualisation are very clear in management's mind.



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2008: A new Government

FIRST HOME SAVER ACCOUNTS

Outline of proposed arrangements

February 2008



RUDD GOVERNMENT MAKING IT EASIER FOR AUSTRALIAN FAMILIES TO SWITCH BANKS



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Positioning: Government

> Positioning our sector is critical:

- **Savings builders:** work commenced to strengthen case, incl budget process
- **Community-based:** ethos of self-help, community focus, member-owned
- **Build mutual case:** expand coalitions with other mutuals, health insurance relevant
- **Housing affordability:** what's our message/innovation in this space?
- **Innovation:** education, productivity

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Positioning: a new Code of Practice

> Why have a Code of Practice?

> What will it involve?

- Easy wins (reflecting services)
- Strong support and launch



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Positioning: Mutuality

Mutuality: What's the difference?

Abacus represents **mutuals** – credit unions and mutual building societies. At mutuals, our focus is on members, not shareholder profit – through better service, fairer fees and a strong commitment to communities around Australia.

A mutual company	A non-mutual company
> Customers (members) are owners	> Owned by shareholders (not customers)
> Run for benefit of members (service)	> Aims to return profit to shareholders
> Each member gets an equal say (one member, one vote) in governance	> Voting is per shareholding (not limited to one vote per shareholder)



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Positioning: Media

Making the switch easier

CREDIT unions and mutual building societies support growing numbers to provide expertise in the retail banking market by making it easier for customers to switch accounts.

The latest ABC Market Research survey of customer satisfaction found that 85 per cent of credit unions and building society customers are satisfied with their bank's service, up from 78 per cent in the previous survey.

"Our high customer satisfaction scores reflect the fact that customers don't have to get shareholders' consent to change banks. Our customers are our shareholders, they own the place," Mr Petcher said.

Other banks, credit unions and mutual building societies do not have to pay dividends to shareholders and founders, they can flow it back to their customers.

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Adelaide Advertiser 11/01/2008

Abacus counts on help for savers

IMPROVEMENTS to the Government's planned First Home Saver Accounts are good news for young workers, say credit unions and building societies.

The customer-owned banking sector lodged a Budget submission last month calling for Government co-contributions to First Home Saver Accounts and for measures to maximise competition and choice in account providers.

"The Government has considerably strengthened the First Home Saver Accounts by introducing Government co-contributions and by allowing the main home lenders - banks, building societies and credit unions - to submit Mercury counts," says Louise Petrick.

Sydney Morning Herald 23/01/2008

"Ames the board the reality for savers is that they are going to see interest rates go up," she said.

Mr Petcher encouraged first home savers who felt they were not getting a good deal to they moved and used credit unions and building societies offer "a safe and competitive alternative" to banks.

Herald Sun 11/01/2008

But ranked loyalty is misplaced and bad for the industry, according to some players. Abacus Australian Mutuals, which represents building societies and credit unions, says research shows 30 per cent of the major banks' customers are not satisfied with the service they're getting, but only 3 per cent take

Australian

use Petcher, acting chief executive of Abacus Australian Mutual, to guide a rule for saving for your first home is to save the largest deposit account that reduces your borrowing costs as additional costs such as stamp duty and mortgage insurance, which was

Sydney Morning Herald 23/01/2008

The Australian mortgage market is divided between authorised deposit-taking banks, building societies, credit unions - and insurance companies and non-bank lenders.

The Australian Financial Review | 16 Feb 2008

Petcher says: "We say that mutual banking institutions provide a highly competitive alternative to the major banks and insurance companies."

Reserve Bank's latest monetary policy statement puts credit unions and building societies lower than the average for banks.

"Our operations are about member benefit because our customers are our owners," she said.

"Our interest is in the best deal for them."

Daily Telegraph

Positioning: Profile & Growth

Our collective campaigns have succeeded due to

- 1 Common aims
- 2 Ownership by all participants
- 3 Flexibility
 - Different inputs and outputs
 - Balance of generic and fund-specific has changed
- 4 Identifying and starkly portraying point of difference



Industry Super Funds

A case-study, and lessons from our collective campaigns

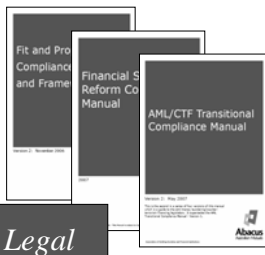
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Reducing compliance costs



AML.Evolve

Abacus Legal



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Abacus Business Intelligence

The dashboard includes sections for Research Services, Regulatory Snapshot (March 2006), Member Value Distribution, and Distribution of Transaction Fees. It also features a DATAMONITOR logo and a page number 13.

Takeovers & Demutualisation

- >Priorities – access, security and takeovers
- >Active alliances with other mutuals
- >Strong political advocacy to win our case
- >Takeover issues need further reform

New Regulation from 20 July 2007

"We will maintain our surveillance of all of those organisations - both building societies and credit unions all around Australia - and we are convinced that over time, the circumstances will arise where some of them will be looking for a home, and we will position ourselves as a natural home for some of those kinds of banking institutions."

Bank of Queensland – December 2007

Abacus landscape

- Members** → Overall high satisfaction. Member take-up of services differs in service areas.
- Stakeholder** → Political profile on track, media and broader engagement and broader profile "to do".
- Mutual agenda** → Broaden membership, focus on driving a mutual "agenda", position as "voice".
- Sustainability** → Sustainable levies and quality services, governance and IA in positive framework
- Abacus Staff** → Overall engagement and commitment strong, resourcing and reviewing service suite against member needs.

Industry Issues

- >Growth in a challenging market
- >How can mutual ADIs increase competitiveness and reduce costs?
- >Profile raising space in the current market and turbulence
- >Demutualisation risks – friendly and hostile – and possible impacts on sector
- >Finding a niche in the new market
- >Creating a stronger mutual agenda

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