



Abacus
Australian Mutuals

Association of Building Societies and Credit Unions

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Dear Mr Connolly

Changes to ADI Statistical Publications

Thank you for providing Abacus with the opportunity to comment on APRA's discussion paper, *Changes to ADI statistical publications*, released on 20 December.

The mutual model is the proven alternative to the listed model in the Australian retail banking market. Mutual ADIs have 4.5 million customers, a strong share of the household deposits and new home loan markets and are consistent market leaders in customer satisfaction and responsible lending.

Abacus welcomes the publication of this discussion paper and the opportunity it provides to update the presentation of APRA statistics to more clearly reflect actual trends in each of the ADI sectors.

In responding to APRA's discussion paper, Abacus makes the following recommendations:

- That APRA develop and report on a single aggregated "mutual ADI" category in its proposed *Quarterly ADI Performance Statistics* publication;
- That a mutual ADI be defined as "an ADI operating under a mutual corporate structure in accordance with ASIC Regulatory Guide 147."
- That APRA's proposed *Quarterly ADI Property Exposure Statistics* publication also include a "mutual ADI" category consistent with the approach proposed for the *Quarterly ADI Performance Statistics* publication.
- That APRA include some additional data categories in the revised *Quarterly ADI Performance Statistics* publication, in line with existing data reported in their *Monthly Banking Statistics* publication.

The introduction of mutual banks as a new concept within the ADI sector in recent years has complicated APRA's ADI statistical publications.

Historically, APRA has published two separate quarterly ADI statistical publications – *Quarterly Bank Performance Statistics* (the Quarterly Bank Publication) and *Quarterly CUBS Performance Statistics* (the Quarterly CUBS Publication). Unsurprisingly, bank statistics appeared in the Quarterly Bank Publication while credit union and building society statistics appeared in the Quarterly CUBS Publication.

In late 2010, the Government announced that credit unions and building societies would be able to use the term "bank" where they met APRA's authorisation guidelines.¹ This change

¹ Australian Government, *Competitive and Sustainable Banking System*, 2010, p. 17.

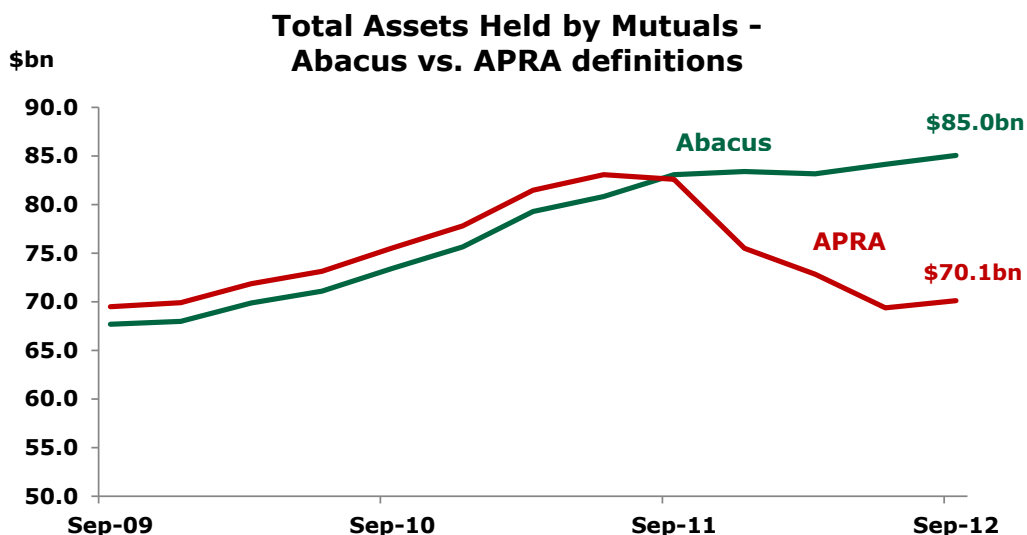
has led to a number of credit unions and building societies rebranding themselves as banks without changing their mutual status. So, while the names of these organisations have changed, they have retained their mutual structure, which has been the key difference between the “bank” and “CUBS” components of the ADI sector. As such, mutual banks continue to have more in common with credit unions and building societies than they do with other banks. In particular, other banks are generally listed entities whose customers and owners are separate groups of stakeholders.

The first transition to a mutual bank occurred in September 2011, with mecu making the switch to bankmecu. Since this time, APRA has been publishing mutual bank data in the *Quarterly Bank Performance Statistics* publication, as part of the “other domestic banks” sub-category. This has meant that mutuals that have rebranded themselves as mutual banks have been moved from the CUBS publication and into the bank publication. We believe that the current reporting approach paints a misleading picture of the strength of the mutual sector, and has caused confusion about trends in the growth of the various banking sectors. As we noted last year:

“APRA’s statistical releases should give the market the capacity to accurately assess the performance of the customer-owned banking sector as a whole. In our view, the APRA release provides only a partial view that could easily lead to an inaccurate view of the performance of the sector.”²

In aggregate, the impact of the change has been significant. APRA’s most recent Quarterly CUBS Publication reported that total assets for the sector had fallen from \$83 billion to \$70 billion over the twelve months to September 2012, a reduction of 15.1%.³ However, when the series is adjusted to incorporate assets from mutual institutions which have made the transition to mutual banks, assets for the sector have actually increased by 2.4% over this period.

The graph below highlights this impact. The gap between the aggregates reported by APRA and Abacus is now almost \$15 billion, and represents a difference of around 21%.



As more mutuals make the transition to mutual banks, the gap between the APRA and Abacus methodologies will grow larger. As of the 2012 September quarter, six institutions had completed the transition to becoming a mutual bank. Since then, the Police Credit Union has become the Police Bank (as of December 2012), and the Police and Nurses Credit Union

² Abacus, *Media Release – APRA reports on only part of the customer-owned banking story*, 30 May 2012.

³ APRA, *Statistics – Quarterly Credit Union and Building Society Performance*, Nov 2012, p. 6.

is expected to become P&N Bank from March 2013. Collectively, these two institutions hold around \$4 billion in total assets, meaning the gap between the figures reported by APRA and Abacus will widen noticeably over the course of APRA's next two quarterly publications.

Making adjustments to APRA's data to produce an accurate picture of the mutual banking sector is possible, but it requires a time-consuming process for Abacus staff to present information that would be more effective, clear and credible if presented by APRA. Currently, 81 individual adjustments need to be made to APRA's published data set to align with Abacus's definition of the mutual ADI sector. As the number of mutual banks continues to grow, the number of manual adjustments Abacus needs to make will increase proportionately.

The data needed to make these adjustments is currently sourced from APRA's *Monthly Banking Statistics* publication. In addition to this being a time consuming process, data sets matching those presented in the Quarterly CUBS Publication do not always exist, meaning in some cases assumptions and inferences about asset splits need to be made to integrate the mutual bank data back into the CUBS aggregates.

Reporting mutual banks

APRA's discussion paper proposes combining the existing Quarterly Bank and CUBS Publications into a single release – *Quarterly ADI Performance Statistics* (the Quarterly ADI Publication). This report would include a new series to capture mutual banks – either:

- Reporting mutual banks as a standalone category; or
- Reporting a single "mutual ADI" category, covering all credit unions, mutual building societies and mutual banks.

Abacus supports the development and publication of a dataset comprising all "mutual ADIs." We believe that this approach offers a number of advantages when compared to the alternative of reporting mutual banks as their own category.

Most importantly, it addresses our current concern that the transition of institutions from "CUBS" branding to "bank" branding has the capacity to mislead individuals about the strength of the customer-owned banking sector. Whether an institution is a credit union, mutual building society or mutual bank, it operates under the same principle of mutuality, and shares the sector's common goals and values around cooperation, trust, integrity and care for members.

Reporting "mutual ADIs" rather than mutual banks should also help to address some of the potential confidentiality concerns raised by APRA. There are currently seven mutual banks, and in a dataset of that size it is not uncommon for APRA to come across the situation where some data points need to be masked (or institutions need to be contacted to seek approval to waive confidentiality). We note that this already occurs in the case of the building society data captured by APRA, which covers nine institutions. By reporting all mutual ADIs collectively, the dataset would contain around 100 financial institutions, which should significantly reduce the probability of potential confidentiality issues arising.

Given that some entities currently reported as building societies and credit unions would not fall within the proposed "mutual ADI" definition⁴, historical mutual ADI aggregates cannot be cleanly derived from old editions of APRA's existing publications. Therefore, Abacus recommends that in the first publication under the new approach, APRA include retrospective publication of data for mutual ADIs back to the start of the 2007-08 financial year. Publication of a time series of this length would be of significant value given the evolution of the sector both during and since the global financial crisis.

⁴ The Rock Building Society Ltd and Wide Bay Australia Ltd are categorised as 'building societies,' but are not mutual building societies; Goldfields Money Ltd and Mystate Financial Ltd are categorised as 'credit unions,' but have demutualised; and Cairns Penny Savings and Loans Ltd is listed in 'Other ADIs' but is a mutual ADI.

Despite the introduction of a mutual ADI series, we note that APRA proposes to continue publishing data in the Quarterly ADI Publication using the same sectoral breakdown as those which currently exist in the Quarterly Bank and Quarterly CUBS Publications. Mutual banks would continue to be reported as part of the “other domestic banks” sector, and credit unions and building societies would continue to be reported separately.

To more clearly differentiate between mutuals and non-mutuals, we recommend that mutual banks be removed from the banking aggregates and instead be reported alongside the CUBS aggregates. While mutual banks are, by definition, technically “banks,” grouping them with other banks for statistical purposes does not appear to be a sensible approach. While mutual banks are banks, they are also mutuals. Mutual banks were all reported as part of the CUBS statistics before they rebranded themselves as mutual banks, and it would therefore seem logical for them to continue to be reported as a part of that group. We also note that APRA has proposed grouping mutual banks with credit unions and building societies for liquidity reporting purposes⁵ – recognising that mutual banks have more in common with other mutuals than they do with other banks.

As a longer term issue, we would also recommend APRA consider whether the publication of a “mutual ADI” series removes the need to continue publishing individual data series for credit unions, building societies and mutual banks. While we recognise that some institutions currently reported by APRA as credit unions and building societies would not fall within our proposed mutual ADI definition, we believe these entities could be better reported through the introduction of an “other ADI” category.

Defining mutuality

In the discussion paper, APRA proposes that “a mutual (whether a bank, CUBS or ADI) will be defined as an institution where each member is issued one share and each member has one vote.”

Abacus notes that APRA has previously defined a mutual ADI as “an ADI operating under a mutual corporate structure in accordance with Regulatory Guide 147 Mutuality – Financial Institutions, ASIC, September 2000.”⁶ Abacus believes that this definition is more appropriate. Regulatory Guide 147 (RG147) includes the requirement that each member has one vote,⁷ but notes that individuals can become members via either member share or guarantee.⁸ This is an important distinction given that mutual building societies are generally limited by guarantee and do not have member shares.

Tidying existing reporting

This review also provides APRA with an opportunity to think more broadly about the types of aggregates it currently reports in its quarterly statistical publications for the ADI sector. While Abacus is generally happy with the proposed content of the Quarterly ADI Publication, we recommend that APRA consider including additional data to add further value to this product.

Specifically, Abacus notes there are several useful data series published in APRA’s Monthly Banking Statistics which are not duplicated in their Quarterly Bank and Quarterly CUBS Publications. Abacus is particularly interested in APRA’s reporting of gross loans and advances, and deposits.

⁵ APRA, *Draft ARF 210.5 – Minimum Liquidity Holdings Ratio*.

⁶ APRA, *Response to Submissions – Implementing Basel III capital reforms in Australia*, March 2012, p. 5.

⁷ ASIC, *Regulatory Guide 147: Mutuality – Financial Institutions*, Sep 2000, p. 9.

⁸ *ibid.*, p. 16.

Gross Loans and Advances: The current Quarterly CUBS Publication breaks down gross loans and advances into three categories – total housing, term, and other. In contrast, the monthly banking statistics break down total household loans into four categories – owner occupied, investment, credit cards and other categories. Abacus believes there would be merit in more closely aligning the quarterly reporting with the existing monthly reporting approach. Specifically, Abacus proposes that the Quarterly ADI Publication breaks down gross loans and advances into the following categories:

- Household lending – owner occupied;
- Household lending – investment;
- Household lending – credit card;
- Household lending – other; and
- Non-household lending.

Deposits: The Quarterly CUBS Publication breaks down deposits into two categories – call/on demand, and term deposits. However, we note that there is also implicitly an “other deposits” category incorporated into the data given that these two subsets do not aggregate to match total deposits. In contrast, the Monthly Banking Statistics allows deposits to be broken down into household and non-household categories. Abacus believes it would be valuable if the existing deposit breakdown in the Quarterly ADI Publication could similarly be further broken down into household and non-household components.

We note that the publication of this additional data will not result in any additional reporting burden for mutuals, as it is already provided in their existing quarterly and monthly APRA returns.

Quarterly ADI Property Exposure Statistics

Abacus welcomes APRA’s proposed introduction of a quarterly statistical publication covering commercial property exposures, residential property exposures and new housing loan approvals. Abacus believes that the various datasets proposed for inclusion will provide valuable insights into the operation of the home lending market, which is a key exposure for Australian ADIs.

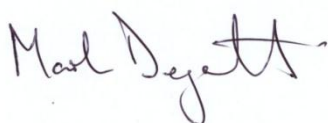
However, we are concerned that APRA is only proposing to break the sector down into the existing bank, credit union and building society categories currently used in the existing Quarterly Bank and CUBS Publications. Abacus strongly recommends that APRA include a “mutual ADI” category in the Property Exposure Publication, consistent with the approach proposed for the Quarterly ADI Publication.

In addition, it would be useful if the data for new owner occupied housing loan approvals (in Table 2c) could be provided in terms of both total value of loans and total number of loans.

More generally, we also note that there may be value in APRA considering the introduction of a similar publication covering trends in personal lending.

Please contact me on _____ or Micah Green, Senior Policy Adviser, on _____ to discuss any aspect of our submission.

Yours sincerely



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