

4 September 1996

The Secretary  
Financial System Inquiry  
Treasury Building  
Parkes Place  
**PARKES ACT 2600**

Phone (06) 263 2893  
Fax (06) 263 2898

### ***Submission to the Financial System Inquiry***

The inquiry will undoubtedly receive submissions and representations from all major participants in the Australian Financial Services sector. This submission is made by a minor participant, in the interests of balance and due consideration of all issues.

Capricornia Credit Union Ltd is a medium sized credit union of \$86 million in assets, serving about 18,000 people in the Central Queensland region. We are part of a movement which has \$15.5 billion of assets; - arguably only a small proportion of the total finance sector.

Nevertheless, the movement has over 3.3 million members. Fully one quarter of the Australian adult population choose to do business with a credit union. The relevance of the credit union movement to the Australian community and economy should therefore not be underestimated.

Credit unions have a number of unique characteristics including:-

- We are mutual organisations owned and controlled by our members, for the purpose of providing financial services for the benefit of members.
- We are truly democratic organisations, each member has one vote irrespective of the quantity of business placed with the credit union. Any member can (subject to the usual disqualification criteria) nominate for the Board of Directors.

- In keeping with mutual principles, credit unions are prohibited from issuing equity instruments which attract dividend payments. All profits are retained within the organisation, forming the major component of our capital base.

Friendly societies, building societies and housing cooperatives exhibit elements of the above characteristics, however those industries are either moving away from true mutual concepts or are in strategic decline.

Credit unions do not seek any special favours or dispensations with regard to regulation. Since introduction of the Financial Institutions Scheme in 1992, credit unions have been subject to a regime of regulation and Prudential Supervision at least equal to that applied in the banking sector. Some would argue that credit union regulation is far more stringent than bank regulation in that:-

- Credit unions are required to meet capital adequacy standards, however tier I capital can only be sourced from retained earnings. Tier II capital is restricted to 25% of total capital.
- Credit unions are required to meet liquidity standards almost double those applied to banks. The majority (85%) is required to be on-balance-sheet.
- Legislation prescribes maximum and minimum parameters for the asset mix of a credit union. the mix of wholesale : retail funding is also controlled by regulation.
-

Further, the recent imposition of income tax on credit unions creates inequities in the market place. A credit union cannot pass dividend imputation credits on to shareholders, so the tax impost on the earnings of a credit union is significantly greater than that on a bank or a non-mutual building society.

Credit unions acknowledge that all sections of the community must pay their way when it comes to taxation. What we seek is a rate of taxation (lower than the standard company rate) which acknowledges our unique capital structure.

It is not the objective of this submission to suggest a framework for the regulation of the entire financial services sector in Australia. Insofar as such a wide ranging enquiry may impinge on the regulation of credit unions, we ask that the following factors be considered:-

- The credit union movement is strong, growing and relevant to a significant number of Australians. This is proof of credit unions' competitiveness in the market place.
- Credit unions do not seek special considerations. In fact, if "competitive neutrality" could be achieved, it would probably improve the competitiveness of credit unions.
- The prudential standing of the credit union movement is not, and never has been, in doubt. The movement has always been able to take care of its own "problems".
- Regulation and supervision of credit unions is paid for directly by credit unions and hence indirectly by users of credit unions. There is no impost of the public purse. The efficiency of regulation of the credit union movement would not appear to us to be the major issue confronting the inquiry.

We can therefore see no compelling reason why the oversight of credit unions needs to be incorporated into the functions of a "super regulator" or some other such scheme involving a broad spectrum of the financial services sector.

The "unique characteristics of credit unions" described above govern credit unions' activities and behaviour in the market place and hence define who we

are. There is a very real risk that a system of regulation which is not geared to the unique nature of credit unions will have the propensity to damage them.

Such damage may not necessarily be deliberate - it could occur inadvertently by lack of understanding, lack of attention due to irrelevance in the bigger scheme of things, or by trying to force credit unions and other segments of the financial community into a common mould.

The Financial Institutions Code, the Australian Financial Institutions Commission (AFIC) and the system of state-based supervision (SSA's) may not be perfect, but at least they are well positioned to respond to credit unions.

Our preferred outcome with regard to regulation and supervision of credit unions is:-

- i. Credit unions should not be placed in a regulatory environment which encompasses a broad spectrum of the financial services sector. (Other than AFIC's participation in the Counsel of Financial Supervisors).
- ii.

The Financial Institutions Code and AFIC should be transferred to the Federal jurisdiction, so that one Minister of the Federal Parliament holds responsibility for the Financial Institutions Scheme. Problems experienced by industry can then be taken up with the person ultimately responsible. This has been very difficult to date as AFIC is overseen by a council of State Ministers who, as a council, are not accountable to anybody.

- iii. In line with the move from a State-based system to a Federal system, SSA's supervision, inspection and registration functions should be subsumed by AFIC.

The message of this submission is simple. There is no real need for, or likely benefit from, major changes to the regulation and supervision of credit unions. We are a viable and vibrant segment of the financial services sector with widespread community support.

A fine-tune of our existing regulatory system will give the industry a much better chance to resolve issues as they arise.

J L Shaw  
Chairman  
Capricornia Credit Union Ltd  
**ROCKHAMPTON QLD 4700**

---

Contact person:

P R Mogg  
General Manager  
Capricornia Credit Union Ltd  
P O Box 1135  
**ROCKHAMPTON QLD 4700**

Phone (079) 272200

Fax (079) 222177