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Banks or credit unions? Which card will you play? [P6]

Fifth pillar posts progress

It pays to understand how banks and credit unions differ, writes **Anthony Keane**

BANKING in Australia is dominated by the big four, but the so-called fifth pillar – credit unions and building societies – continues to chip away at their market power.

More than 4.5 million people are members of Australia's 101 credit unions and eight mutual building societies, and new government figures show their combined assets grew more than 12 per cent last year to $83 billion.

Many people are customers of both, and may find there are more similarities than differences in the personal banking services they offer. Some credit unions are even calling themselves banks.

However, it pays to understand how both operate, and their strengths and weaknesses, to ensure you are saving as much as you can and spending as little as possible.

DIFFERENT STRUCTURES

The biggest difference between the two groups is ownership structure, says Police Credit Union chief executive Costa Anastasiou.

"A bank has external shareholders, and as a shareholder there is an expectation that the share price will increase and that a dividend is paid," he says.

"Due to this very point a bank is driven to return the highest profit it possibly can.

"Credit unions, on the other hand, are based on a mutual model – it is their members who own credit unions."

This stems from credit unions' links with specific occupations, such as teachers, police or public servants. Historically, only members of the linked industry could join its credit union, but today most are open to anyone.

Paul Willis, the general manager member services for SGE Credit Union, says the changing face of employment – where many people don't stay in the same job for life – has made credit unions broader, typically with the same range of personal finance products as banks.

"We don't restrict who can become a member," Willis says.

PRICE WATCH

While banks pay billions of dollars in dividends to shareholders every year, their products and services usually cost about the same.

This is because their massive size enables them to spread their costs over a much broader base.

Australian Bankers' Association chief executive Steven Munchenberg says it's all about competition.

"Banking is a very competitive market and banks would lose customers if their products and services were vastly more expensive than competitors," he says.

Infochoice.com.au spokesman Dirk Hofman says on pricing, credit unions and building societies – collectively known as mutuals – generally outperform the big banks in term deposits, credit cards and personal loans.

"When it comes to home loans, they'll generally have lower published rates, but the major banks seem to have more room to discount from their higher published rates," Hofman says.

Willis says when choosing any financial product, people should beware of hidden costs.

"I often say turn the ad upside down and make the fine print larger and the headline print smaller to get an idea of what it's really going to cost you," he says.

STRENGTHS, WEAKNESSES

Oracle Lending Solutions broker Tony Musolino says credit unions tend to be community-based, while banks operate through a far-reaching network of branches spread across communities.

While credit unions have been expanding nationally in recent years, many are based primarily in one or two states, and they don't have the broad suite of businesses that banks do.

As for population penetration, credit unions and building societies reach 30 per cent of people in South Australia, 28 per cent in NSW, 18 per cent in Queensland, 10 per cent in Victoria, 8 per cent in Tasmania and 6 per cent in WA.

Peter Evers, the managing director of People's Choice Credit Union and a member of the Federal Government's Financial Sector Advisory Council, says the key strength of credit unions is their personal finance focus, while banks are bigger in areas such as business lending, agriculture finance and property development.

"Most credit unions aren't into business lending in a material way," Evers says. "However, many small businesses are feeling disenfranchised about the way they are being treating by banks as too small for them. We are seeing that as an opportunity."

Victoria Teachers Credit Union chief executive William Wolke says banks have much higher non-interest income because their businesses include wholesale banking, treasury, foreign exchange and commercial finance. He says credit unions focus more on relationships than transactions, but still need to have competitive products.

"You don't earn business because you're nice and have these customer-focused values," he says.

The ABA's Munchenberg says banks have more regulatory scrutiny and their branch networks are six times larger than credit unions – 5588 versus 868 branches.

AN EACH-WAY BET

Many Australians use both. Wolke says his organisation's research has found the average individual has 2.6 financial relationships. "People don't have everything with one organisation," he says.

Munchenberg says banks remain the dominant force.

"Roy Morgan research shows that as at December 2010, banks are the main financial institution chosen by 15.5 million customers aged 14 and over," he says.

"This is an increase of 2.9 per cent or 444,000 customers over the past year.

"Credit unions are the main financial institution for 1.7 million customers, while for building societies it is 605,000 customers."

LESS IS MORE

Mergers have more than halved the number of credit unions in the past 15 years, from 284 to 101.

Evers says the industry has been consolidating by an average of five to 10 mergers each year.

"The size of the industry in numbers is reducing, but the size in total assets and loans and deposits is growing," he says. "The top 10 probably represent over 60 per cent of members and assets."

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The merger activity has enabled credit unions to become broader and offer more products, and in some cases they have even teamed up with banks.

Their combined ATM network – the rediATM network that they operated with NAB – has 3800 ATMs, more than the networks of the other major banks.

SO WHAT DO YOU CHOOSE?

Australians are spoilt for choice with our financial institutions, and it all comes down to doing your research to find out what works best for you.

"You can't say everybody should be in a credit union or a bank. It comes down to a personal judgment," Evers says.

Oracle's Musolino says, from a customer's perspective, banks and credit unions offer similar services.

"When choosing which type of financial institution is right for you, you will need to assess carefully which offers you the most appropriate services at the most favourable rates to meet your financial needs," he says.

Musolino says the loan market is particularly competitive and prospective borrowers should investigate both banks and credit unions before making a decision.

BECOMING BANKS

Recent changes to government rules have allowed credit unions to gain banking licences and call themselves banks if they meet certain regulatory criteria.

Early this month Melbourne-based MECU became Australia's first mutual bank and changed its name to bankmecu.

Queensland Teachers Credit Union will follow it on October 1 and change its name to QT Mutual Bank, while other credit unions are examining a change.

HOW THEY MEASURE UP

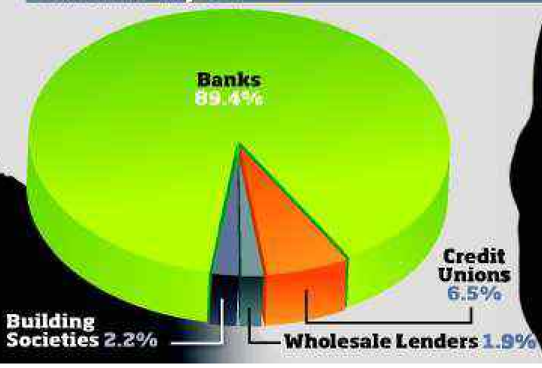
HOUSEHOLD DEPOSITS

Australian Bankers' Association CEO Steven Munchenberg

PRICE COMPARISON

Big Four Banks	Home Loans Standard Variable	Term Deposits 1 Yr $10K	Online Savings Accounts Max Rate > $10K
ANZ	7.80%	5.60%	6.25%
Commonwealth Bank	7.81%	5.50%	5.75%
NAB	7.67%	5.60%	5.65%
Westpac	7.86%	5.60%	5.75%
Major Mutuals			
CUA	7.22%	5.85%	6.30%
People's Choice Credit Union	7.70%	5.60%	5.80%
Heritage Building Society	7.44%	5.90%	4.95%
Newcastle Permanent Building Society	7.37%	5.65%	5.36%

NEW HOME LOANS



People's Choice Credit Union managing director Peter Evers