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# 1. THE CREDIT UNION & BUILDING SOCIETY MOVEMENTS

## 1.1 *What is a Credit Union*

There are many Credit Unions operating within Australia and New Zealand in different environments and communities. However, when you get down to basics, all have certain common characteristics, namely:

- They operate as a savings and loans co-operative being established by a group of people who have agreed to help each other by regularly saving together and then on-lending these funds to each other at favourable rates of interest.
- The members are also the proprietors i.e. they own the Credit Union. The Credit Union as an entity does not aim to achieve big profits for a remote group of shareholders but rather is motivated to improve the financial well-being of all member-owners of their self-help enterprise [not unlike a large family concerned with its financial happiness].
- Members often share a common interest which brings them into contact with each other and which provides a sense of unity to the whole group. Credit Unions exist among:-
  - Employees of particular public or private sector organisations.
  - Residents of particular communities.
  - Members of Church parishes, Ethnic groups, Trade Unions, Associations and Societies.
- At Annual or Special Meetings, each owner-member has only **one vote** per issue, irrespective of the extent of their savings and loans with the Credit Union.
- Member-owners elect a Board of Directors and charge it with the responsibility of operating the Credit Union on their behalf. The Board's authority is governed by legislation and the Credit Union's Constitution (which in turn was approved by members).
- ***Credit Union Operational Philosophy.*** After operational expenses are met credit union profits are used to build the strength of their credit union by building its reserves (capital) to meet prudential standards operating in the country and to support future development & services.

## **Credit Union Operation and Structure**

The operation and structure of the credit union reflects:

- the size of membership,
- the range of products and services offered,
- the nature of the bond and membership profile, and
- the financial strength and stage of development of the credit union as a sound commercial operation.

Australian and New Zealand credit unions have operated across a wide range of delivery structures, including: -

- i. No office - volunteer based operation
- ii. Single office - volunteer and 1 - 2 staff
- iii. Single office plus remote access - management and staff based
- iv. Remote access only - management and staff based
- v. Multi branch - management and staff
- vi. Multi branch, with no cash counters plus remote - management and staff

However the evolving demands and influence of legislative and regulatory systems in Australia and the private trust deed system in New Zealand have led to the disappearance of the more basic models of credit unions.

Today credit unions operate in a highly competitive marketplace with plenty of choice for customer/members and so have had to develop the sophisticated infrastructure to meet member expectations.

Volunteer office or field representatives remain an integral feature of some credit unions in Australia and most in New Zealand.

While individual practice and interpretation of Credit Union policy may vary, at their core is the concept of **human and social development** expressed through people working together to achieve a better life for their community and themselves.

### **Statement of Credit Union Operating Principles**

*(adopted by World Council of Credit Unions in August 1984 and reviewed in 2004)*

These Credit Union Operating Principles are founded in the philosophy of cooperation and its central values of equality, equity and mutual self-help. Recognising the varied practices in the implementation of credit union philosophy around the world, at the heart of these principles is the concept of

human development and the brotherhood of man expressed through people working together to achieve a better life for themselves and their community.

## **A. DEMOCRATIC STRUCTURE**

- ***Open and Voluntary Membership***
  - Membership in a credit union should be voluntary. Membership should be open to all within the accepted common bond of association who can make use of its services and are willing to accept the corresponding responsibilities.
- ***Democratic Control***
  - Members of a credit union should enjoy equal rights to vote (“1 member, 1 vote”) and participate in decisions affecting the credit union, without regard to the amount of savings or deposits or the volume of business.
  - Voting in credit union support organisations or associations may be proportional or representational, in keeping with democratic principles.
  - A credit union is a cooperative enterprise serving and controlled by its members, and should thus be autonomous, within the framework of the law and industry supervision.
  - Credit Union elected offices are voluntary in nature and elected officials should not receive a salary. Elected officials may, however, be reimbursed legitimate expenses. (Note that this element was deleted in the amended version published in 2004).
- ***Non-Discrimination***
  - A credit union should be non-discriminatory in relation to age, race, nationality, sex, religion and politics.

## **B. SERVICE TO MEMBERS**

- ***Service to Members***
  - A credit union’s services should be directed to improving the economic and social well-being of all members.
- ***Distribution to Members***
  - To encourage thrift through savings and thus to provide financial accommodation and other services, a fair rate of interest should be paid on savings and deposits, within the capability of the credit union.

- The surplus arising out of the operations of a credit union, after allowing appropriate reserve levels and payment of limited dividends on share capital if it exists, should belong to and benefit all members, with no member or group of members benefiting to the detriment of others.
- This surplus may be distributed among members in proportion to their transactions with the credit union as interest or directed to improved or additional services required by the members.

- ***Building Financial Stability***

- A prime concern of a credit union should be to build the financial strength, including adequate reserves and internal controls, that will ensure continued service to its members.

## **C. SOCIAL GOALS**

- ***On-going Education***

- A credit union should actively promote the education of its members, officers and employees, along with the public in general, in the economic, social, democratic and mutual self-help principles of credit unions.
- The promotion of thrift and the wise use of credit, as well as education on the rights and responsibilities of members are essential to the dual social and economic character of credit unions in serving member needs.

- ***Co-operation Among Co-operatives***

- In keeping with their philosophy and the pooling practices of cooperatives, a credit union should, within its capabilities, actively cooperate with other credit unions, cooperatives and their associations at local, national and international levels in order to best serve the interests of its members and their communities.

- ***Social Responsibility***

- Continuing the ideals and beliefs of cooperative pioneers, credit unions seek to bring about human and social development.
- Their vision of social justice extends both to the individual members and to the larger community in which they work and reside.
- The credit union ideal is to extend service to all who need and can use it.

- Every person is either a member or a potential member and appropriately part of the credit union sphere of interest and concern.
- Decisions should be taken with full regard for the interest of the broader community within which a credit union and its members reside

These operating principles were incorporated within the Financial Institutions Code in Part 3 - Principles, Objects and Characteristics of Societies that governed the operations of Australian Credit Unions between 1<sup>st</sup> July 1992 and 31<sup>st</sup> December 2000 when the transition to Corporations Law was completed.

Although the statement of principles did not have the force of law, it nevertheless represented for the first time, legislative recognition of those special characteristics that differentiate Credit Unions from other co-operatives and financial institutions.

These principles provide guidance to over 90 Credit Union Movements around the world demonstrating that they can co-exist with many cultures. One compelling feature about the credit union model is its flexibility. The credit union model has consistently proved over many decades its capacity to adapt to the culture and environment whenever and wherever it is being applied.

WOCCU has published guidelines to assist credit unions throughout the world to make full use of these principles.

### **Editor's Comment**

In Australia the *Distribution to Members* principle has been varied to accommodate the local legislative environment and can be summarised as follows: -

- To encourage thrift among members through saving for the things they need.
- To offer competitive rates of interest on deposits and loans within the constraints of the financial markets and after ensuring adequate funds are available for administration, staff and tax expenses and prudent profit levels;
- To maintain prudent reserves (via profit) which are sufficient to comply with prudential capital adequacy ratio requirements: and to provide sufficient capital to fund future growth.
- To continue providing innovative and relevant products and services to members in a demanding and competitive marketplace.

*This same legislative environment has also led many credit unions to introduce some form of directors' remuneration in recognition of the responsibilities now carried by the directors. Many credit unions, however*

*choose to set remuneration levels for directors below commercial rates to reflect a commitment to the voluntary aspect of the role.*

### **Adoption of Capital & Mutuality Principles by Australian Credit Unions affiliated with Credit Union Services Corporation (Aust) Ltd**

In 1997, in anticipation of the move in 1999 from the State-based regulation of credit unions under the Financial Institutions Code to the Commonwealth Corporations Act, credit unions affiliated with CUSCAL adopted the **Principles of Mutuality**. In the broadest sense, these Principles address the economic and governance relationship between members, which is the basis of a credit union as a mutual organisation.

This broad concept of mutuality, although not the same provisions as those adopted by CUSCAL affiliates, has been included in the corporate and prudential regulatory framework. Under section 66 of the Banking Act, the terms “credit union” “credit society” and credit co-operative” can only be used by institutions that are authorised deposit-taking institutions and which are mutual entities largely engaged in retail financial services. Mutuality is not defined in the Banking Act but it is determined by reference to ASIC Policy Statement 147 “*Mutuality – Financial Institutions*” issued in September 2000.

There are differences between the “Principles of Mutuality” and the ASIC Policy Statement because the latter had to account for the divergent practices of building societies in Australia. Nonetheless, there are common issues that give a modern context for the World Council’s Operating Principles issued in 1984. The following is taken from the Principles of Mutuality: -

- Members are sovereign
- One member/ one vote
- Generally only members can borrow or deposit
- Only a member of the credit union can be a director
- Member shares are not transferable but are redeemable
- Members can participate on equitable terms in any dividends and surplus on winding up
- A credit union can issue Additional (or investment) shares but subject to the following requirements:
  - they can only be issued to existing members of 6 months or greater standing
  - the right to vote is limited to a meeting of holders of those shares or on a question of the continuing existence of the credit union
  - holders of additional shares can receive dividends
  - holders of additional shares can participate in any surplus winding up to the extent of repayment of capital and arrears of cumulative dividends
  - the share may carry the right to redemption and transfer.

## **1.2 The Credit Union System**

### **Worldwide**

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Around the world credit unions have been providing people with financial services and support for more than 150 years. Distinct from other financial institutions, their demonstrable focus on both the social and economic well being of their members and the communities they serve, has seen their membership grow to more than 186 million in 97 countries with \$US1,194 billion in total assets.

The World Council of Credit Unions (WOCCU) was formed in 1970 to act as the ambassador for the International Credit Union Movement and to be the central coordinator in the promotion and development of credit unions. Based in Madison, Wisconsin USA it has members in Africa, Asia, Australia, Canada, The Caribbean, Europe, Latin-America, The United States, Britain, Fiji, Ireland and New Zealand supporting over 53,000 credit unions.

### **Australia**

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Australia as at September 2009 had 114 credit unions serving over 3.6 million members with total assets approaching \$A47 billion.

One hundred and twelve of these credit unions are currently members of Abacus – Australian Mutuals and many are also customers of Cuscal. Those credit unions that are not customers of Cuscal are generally customers of Indue or ASL.

Credit Unions affiliated with Abacus are in turn affiliated with WOCCU through the Abacus membership of the International Credit Union peak organisation. Some credit unions are also affiliated with the International Co-operative Alliance (ICA), the international organisation for co-operatives.

The Australian Credit Union Movement has grown to be the third largest credit union movement in the world behind the USA, and Canada/Quebec. This enormous achievement owes a lot to the vision of our pioneers and our preparedness to explore the full potential of the cooperative system as the primary means for strengthening our individual credit unions and continually developing their capacity to better serve their members.

One interesting aspect of the movement in Canada is the development of the Canadian Credit Union Movement serving the anglophone population in the English speaking provinces and the Caisse Populaire Des Jardins Movement serving the francophone population in Quebec. In both instances the credit unions / caisse populaires have achieved significant market penetration and are both firmly entrenched in the mainstream of the retail financial services market.



## New Zealand

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New Zealand currently has 32 credit unions serving more than 180,000 members with all but eight of these belonging to the New Zealand Association of Credit Unions (NZACU). NZACU is affiliated to WOCCU and has 23 credit unions serving 171,000 members with total assets of NZ\$615 million. NZACU provides the following services for affiliates:

- Industry association and media representation.
- Core banking system (Facts) for banking products and services.
- Member consultative forums, training and development.
- Audit, risk management and compliance services.
- Specific banking products eg Access card, insurance etc

The Registrar of Friendly Societies & Credit Unions (Ministry of Economic Development) is responsible for registration and public files of credit unions. The Registrar has overriding powers in determining the validity of a common bond and in approving the rules of a credit union. He/she also has powers of intervention in certain circumstances. Changes to the Act are expected mid 2010.

Since financial deregulation in the late 1980's, the NZ Government has shied away from being directly involved in any form of prudential supervision of the country's financial institutions. Up until September 2008 the statutory prudential framework in New Zealand was based on compliance with Securities legislation administered by a Securities Commission (NZSC). Under that legislation ADIs (other than registered banks – who were prudentially supervised by the Reserve Bank) were required to appoint an approved Trustee Company to be their prudential supervisor under a trust deed that enabled the Trustee Company to enforce compliance with certain stated minimum conditions.

In September 2008 the Reserve Bank of New Zealand became the prudential regulator of the non-bank deposit takers sector as well as for banks. Non-bank deposit takers are defined in the Reserve Bank of New Zealand Act 1989 as entities that are not registered banks, but which issue debt securities (as defined in the Securities Act 1978) to the public and carry on the business of borrowing and lending money, or providing financial services (or both). The definition includes building societies and credit unions.

The Reserve Bank has been given powers to require non-bank deposit takers to meet new prudential standards and to maintain a credit rating from a credit rating agency. However there is a class exemption for certain deposit takers from the requirement to have a mandatory credit rating. This exemption is available if the consolidated liabilities of the borrowing group of the deposit taker are less than \$20 million (measured as an average over a 12-month period). Consequently only 5 member Credit Unions of NZACU are required by law to maintain a credit rating.

The regulations have introduced standards for the measurement and management of capital and related party exposures. The liquidity requirements have yet to be announced. The Reserve Bank will also have a role in monitoring and enforcing compliance with the regulations.

In addition deposit takers will be required to comply with new governance standards (as yet to be determined) and the new risk management requirements (established September 2009).

All regulations relating to the Reserve Bank of New Zealand Amendment (No. 3) Act will be in place by December 2010.

Overall the new regime has been designed to promote the maintenance of a more sound and efficient financial system particularly that proportion represented by the non-bank deposit takers sector.

Though under a new regulator credit unions will continue to be subject to trust deeds and be supervised by trustee corporations under the Securities Act; however trust deeds will have to comply with the new prudential requirements. New reporting obligations and liabilities have also been imposed on trustees who will continue to monitor and enforce compliance with trust deeds. Henceforth trustees will be required to report material trust deed breaches to the Reserve Bank as well as non-compliance with other requirements set by regulations. Trustees will continue to be responsible for monitoring and enforcing compliance with requirements that are incorporated into the trust deed.

Most member credit unions of NZACU have appointed Trustees Executors to be their prudential supervisor in a generic trust deed negotiated by NZACU so as to allow for common conditions applying to the credit unions involved.

Financial Institutions including credit unions are required to file annually a public prospectus disclosing a summary of the past 5 years financial performance, details of directors, officers, and advisors, and audited financial statements. Credit unions are also required to certify all their advertisements and to issue and circulate an Investment Statement to all new depositors.

Two other Acts were passed in 2008 that affect credit unions; The Financial Advisers Act 2008 and the Financial Service Providers (Registration & Dispute Resolution) Act 2008. The Securities Commission being solely responsible for monitoring industry standards and authorising financial advisers.

The *Financial Advisers Act 2008* puts in place:

- Two-tiered approach to regulation
- Conduct and disclosure obligations
- Commissioner for Financial Advisers who in turn appoints a Code Committee who are responsible for producing a code of conduct for financial advisers.

***Financial Service Providers (Registration & Dispute Resolution) Act 2008***

requires any person(s) who provide financial services:

- To be registered and authorised
- Be a responsible financial service provider

N.B This act only applies to New Zealand financial service providers

During 2006, the NZ Parliament passed several amendments to the Friendly Societies and Credit Unions Act 1982. The Registrar's statutory discretion when approving a common bond was replaced with an objective test that allows credit unions to extend their territorial coverage and to make transfers of engagement easier. Incorporated societies and charitable organisations are also now permitted to become members of credit unions.

In mid 2010 further amendments to the **Friendly Societies and Credit Unions Act 1982** will be passed. The following is likely to be addressed:

- Credit unions will be able to incorporate – thus have limited liability, have perpetual succession and to be able to sue and be sued.
- Credit unions will be able to issue withdrawable and non-withdrawable shares so that they are in fact able to raise more capital so that they can meet the new capital requirements imposed by the Reserve Bank.
- Where the Registrar has the power to approve matters relating to borrowing or lending, holding land and approving forms of security - those powers will be removed.

### **1.3 The Australian & New Zealand Movement Governance System**

#### **The first 63 years 1946 - 2009**

##### **Australia**

During World War II, Kevin Yates was stationed for a period in Canada while training in the Royal Australian Air Force. Since 1900, Credit Unions had been operating successfully in Canada and Yates was impressed with what he saw. For Yates the most outstanding features were the financial status, independence and pride which credit unions offered their members.

On returning to Australia in 1946, he introduced the credit union philosophy to a group of Catholic laymen. This discussion group ultimately founded the first authentic Australian credit union - Universal Credit Union on 4th October 1946.

By the mid 1950s, the Australian Credit Union Movement had established strong foundations and was spreading throughout communities and across state boundaries. State credit union associations or leagues were formed to help expand the Movement, provide services to the Movement and act on behalf of credit unions when necessary. The Australian Federation of Credit Union Leagues (AFCUL) was formed in 1966 by the Leagues of New South Wales and Queensland, with all State leagues being included by November 1967. The role of the Federation included the examination of federal legislation affecting credit unions and the marshalling of resources and statistics on a federal basis. It provided a forum for the exchange of ideas between State leagues, with the aim of improving legislation and services to all credit unions. In 1992 the duties of AFCUL and five of the state associations (excepting Queensland) were centralised into the single national servicing group - the Credit Union Services Corporation (Australia) Ltd (CUSCAL) and Credit Union Financial Services (Australia) Ltd (CUFSAL).

During the 1990s CUFSAL was merged into CUSCAL as there was no longer a regulatory need to house the central banking service in a separate legal entity.

In 2002 CUSCAL initiated a major review of its strategy and structure for the future using a consultative process involving member credit unions known as the Way Ahead Taskforce. The major outcomes from the Way Ahead Taskforce process were: -

- Separation of the Industry Association (Credit Union Industry Association and the Commercial Services (CUSCAL) into two separate divisions of CUSCAL.

- An indefinite freeze on the right of CUSCAL to draw capital from member credit unions based on growth in assets of the credit union.
- An entirely new three year strategic plan for CUSCAL which focused CUSCAL's attention on a review of its future capital needs with a view to returning excess capital to member credit unions and the pursuit of efficiencies in order to provide credit unions with a commercial return on the remaining capital invested within CUSCAL (+8% ROE).

In July 2006 the Credit Union Industry Association (CUIA) and the Australian Association of Permanent Building Societies (AAPBS) announced the formation of a joint venture bringing at that time the 128 credit unions affiliated with CUIA together with the eight mutual building societies affiliated with AAPBS together into Abacus – Australian Mutuals. Abacus – Australian Mutuals thus became a separate legal entity from Cuscal and now represented some 4 million members and \$45 B in assets. In November 2006 Heritage Building Society, the one mutual building society outside Abacus joined Abacus in its own right adding another \$5.3b in assets coverage. In early 2007 negotiations were completed between Abacus and NCUA resulting in the formation of a single united industry association representing all credit unions and mutual building societies from 1<sup>st</sup> July 2007.

Also during 2006 the Cuscal Board presented its case to member credit unions for a radical change to its Constitution to provide Cuscal with new flexibility to raise capital from outside the movement and to pursue new business opportunities to sustain its future given the ongoing rationalisation in credit union numbers, the creation of very large credit unions and the new links with mutual building societies. These Constitutional changes were built around the following nine principles: -

- i) unbundling of the Customer, Shareholder and Member relationship whereby customers of Cuscal are not locked into any specific type of relationship.
- ii) Termination of the mandatory participation agreement including participation in CUFSS with CUFSS participation encouraged.
- iii) Development of a market value for Cuscal share transfers.
- iv) Cuscal to operate / facilitate the share transfer market.
- v) Removal of right for Cuscal to call up capital from owner credit unions.
- vi) New capacity to raise non mutual voting capital (limit to 10%).
- vii) New capacity to raise non-mutual non voting capital (preference shares).
- viii) Allow all mutuals to be shareholders and members.
- ix) New capacity for non mutual successors of mutuals to retain full voting shares (limit 10% in total).

This new Constitution was approved by member credit unions at a Special General Meeting on 7<sup>th</sup> September 2006.

The restructured Abacus as of 1<sup>st</sup> July 2007 was owned by CUIA – 60%, AAPBS - 20% and NCUA – 20% and represented all mutual ADIs providing a powerful single voice for the mutual sector which expanded further when the 28 Friendly societies joined from 1<sup>st</sup> July 2008.

The governance structure for the mutual ADI sector is now as follows:-

- ***Abacus – Australian Mutuals***

The industry association represents the voice of the mutual financial services sector serving around 151 credit unions, mutual building societies and friendly societies. Services include industry representation, compliance services, research and advisory services, public relations activities and support for social responsibility programs.

Abacus commenced operations on 1<sup>st</sup> July 2006 with its own dedicated Board of Directors consisting of an independent Chairman and four representatives each from the credit union and mutual building society sector with a representative of the friendly societies added to the Board in 2008.

From 1<sup>st</sup> July 2009 Abacus implemented a new governance structure whereby the three associations that owned it handed over ownership to a new direct control model whereby each mutual ADI became a member owner.

During 2010 the second phase of the restructure will be complete determining the form of services to be offered going forward.

- ***Cuscal Limited***

Cuscal is a limited company holding an authorised deposit taking license which is owned and funded by member credit unions. Cuscal provides credit unions and building societies access to a range of wholesale and retail banking products and services using its financial rating in the market along with the economies of scale from aggregating credit union and other business to deliver optimum value to its customers.

From 1<sup>st</sup> July 1999 CUSCAL became a company registered under the Corporations Act and following the approval from member credit unions at the November 1999 Annual General Meeting registered with ASIC a new Constitution in place of the then existing Rules.

Further changes were made to the Constitution at a Special General Meeting in May 2003 to implement the agreed outcomes from the Way Ahead Strategy *restructure* conducted over 2001 and 2002. A key change involved the separation of the Industry Association and the Commercial Services into two separate divisions.

A new Constitution approved by shareholder credit unions in September 2006 removed the mandatory commercial shareholding and membership obligations on credit unions in order to access Abacus trade association services and Cuscal commercial services leaving it up to credit unions and mutual building societies to determine which relationships they wished to maintain eg. shareholder / owner, customer, member.

Cuscal has a board of seven directors made up of three directors elected by the shareholders, three independent directors appointed by the Board plus the CEO who is also a director. Effective from the 2009 AGM the chairman is an independent director.

- ***Credit Unions & Building Societies***

Credit Unions and Mutual Building Societies have the opportunity to: -

- subscribe capital for commercial shares in Cuscal giving them all the normal rights that shareholders have in directing the affairs of the company and participating in dividends paid;
- become a customer and access retail or wholesale banking services regardless of whether or not a shareholder.
- become a member/owner of Abacus through the payment of membership subscriptions and participate in the governance and particular programs of Abacus.
- become a customer for the services provided by Abacus.
- become a participant in the Credit Union Financial Support Scheme Contract (CUFSS).

- ***Industry Association Advisory Committee***

A key outcome from the Way Ahead Strategy restructure adopted by member credit unions at the 2002 AGM was the abolition of the Membership Council established during the Project Renewal process in 1990 and the establishment of the ***Industry Association Advisory Committee***

The IAAC consisted of five members elected by affiliated credit unions (one of which had to be from smaller credit unions), two CUSCAL Board members and the CEO as an ex-officio and non voting member.

The IAAC's role was supported by the General Manager of the Industry Association and had specific terms of reference in advising both the Industry Association and the CUSCAL Board about Industry Association matters.

The IAAC was disbanded upon the ownership restructure of Abacus in July 2007.

- ***Chairs / CEO's Forum***

This forum was utilised during the Way Ahead Strategy process and was subsequently institutionalised as part of the new communication and decision making process within the Movement Governance system.

These Forum play an important role in the consultative process between Abacus and member mutual ADIs with forum held annually in April and September.

- ***Credit Union Financial Support System(CUFSS)***

Following the abolition of the Emergency Liquidity Support System (ELSS) and the state based contingency funds from 1<sup>st</sup> July 1999 under the new Commonwealth system of regulation, the CUSCAL affiliated credit unions developed a replacement system called CUFSS. CUFSS was initially linked to membership of CUSCAL and participation in the Credit Union Banking Service (previously Central Banking). CUSCAL, CUFSS and nearly all the affiliated credit unions are parties to an Industry Support Contract that sets out the purpose of the Industry Support System along with the benefits and obligations of each of the parties.

Following adoption of the new Cuscal Constitution in 2006 membership of CUFSS moved from mandatory to voluntary and was later expanded to invite mutual building societies to participate regardless of whether or not they were customers of Cuscal.

- ***Indue and NCUA***

Indue (formerly Creditlink Services Ltd) is a licensed ADI that also provides a range of wholesale and retail financial services to credit unions and to other clients including Church Funds.

NCUA (National Credit Union Association) was up until the restructured formation of Abacus from 1<sup>st</sup> July 2007 an alternate industry association representing the needs of its member credit unions with Government and Regulators and providing related services to its members. Indue has a Board of Directors with an independent Chair and a mixture of elected and appointed directors.



## **New Zealand**

Several small independent credit unions operated from the 1930s. In the early 1950s Father Marion Ganey who had been active in setting up credit unions around the world visited New Zealand and the first Catholic parish credit union was established in Hamilton as a result of this visit. In 1961 Father Ganey again visited New Zealand and spoke of the importance of a united credit union movement. Following this visit, the New Zealand Credit Union League was established with Trevor Barber as first president and Colin Smith, a prominent chartered accountant as the first secretary.

Three years later the League had nine member credit unions. Colin Smith became its Managing Director, a position he held until his death in 1986. The League which had its base in Hamilton in the Waikato changed its name to the New Zealand Association of Credit Unions (NZACU) in 1989 and shifted its operations to Auckland in 1995.

There is a Manchester Unity Association of Credit Unions and also five independent credit unions not belonging to an association.

Associations of Credit Unions are registered under additional provisions in the Friendly Societies and Credit Unions Act 1982. They are governed by the same democratic rules and procedures that apply to ordinary credit unions but are also permitted to administer central banking and member stabilisation facilities.

The New Zealand Association of Credit Unions has a code of ethics which member credit unions are required to observe. This code covers relationships between credit unions and their Association, and with members, and stakeholders.

A separate code of ethics that compels the personal behaviours of directors and managers is administered by the Credit Union Institute of New Zealand Inc (CUINZ).

### **New Zealand Association of Credit Unions**

There are two components in the New Zealand Association of Credit Unions (NZACU):

- ***Member Services***

These services are concerned with the day to day operations of the Association, Director and Staff education and training, and general assistance with governance, management and legal compliance issues, strategic planning, Trust Deed Licensing System, accounting and management support, publications and member meetings.

- ***Business Services***

This division of NZACU provides on a user pays basis: information services and computer bureau facility, central and retail banking network, risk management insurance, retail insurances, and home loan mortgages. The business services division is owned by those credit unions that have purchased capital notes in the Business Services Trust.

- ***Restructuring of the Boards***

At the 2003 AGM Member Credit Unions voted unanimously to merge the Business Services Board and the Member Services Board into a single Board. However the Association continues to operate with the two divisions viz Business Services and Member Services reporting to the one Board of Directors.

## **1.4 Movement owned support organisations**

### **1. Australasian Mutuals Institute (AMInstitute)**

*Ownership:* Directors and Managers of Australian and New Zealand Credit Unions who take out membership of their Institute.

Australian Credit Union Institute (ACUI) was formed on 1<sup>st</sup> January 2006 through the merger of Australasian Institute of Credit Union Directors (AICUD) and Australian Institute of Credit Union Management (AICUM). Following the restructure of Abacus-Australian Mutuals from July 2007 ACUI reviewed its membership criteria to mutual building societies specifically and the broader mutual sector generally and gaining approval from members for a change of name to Australasian Mutuals Institute effective 1<sup>st</sup> April 2008. The objects of AMInstitute as currently listed in the Constitution are:-

- promote excellence, professionalism and integrity in the directors, managers and staff of all Mutuals; to improve their knowledge and skills with respect to their rights, duties and responsibilities; and, to promote a high standard of ethics amongst such directors, managers and staff;
- enhance excellence and professionalism in all aspects of the governance & management of Mutuals;
- facilitate the education and professional development of Mutual directors, managers and staff at national and regional level; and provide these services cost-effectively to members;
- uphold and maintain the philosophy and principles of the Mutuals, through networking, co-operation and the exchange of ideas among members;
- promote the management of Mutuals as a career;
- affiliate with organisations with similar objects both within and external to the Mutuals sector ; and
- ensure that directors, managers and staff keep up-to-date with relevant legislative, economic and social matters which affect their roles and responsibilities as credit union and mutual building society directors, managers and/or staff.

*Membership Statistics;* As at 30<sup>th</sup> September 2009 AMInstitute had 1,514 members, 293 holding membership level of Fellow and a further 114 at Associate Fellow level.

*Further Information:* Contact AMInstitute on (612) 9744 5717 (tel) or (612) 9744 5752) (fax) or [www.aminstitute.org.au](http://www.aminstitute.org.au) (web) or [info@aminstitute.org.au](mailto:info@aminstitute.org.au) (email)

## **2. Abacus – Australian Mutuals**

*Ownership:* As of 1<sup>st</sup> July 2009 Abacus is owned by 111 of the 114 credit unions, all nine mutual building societies through a direct governance control model and services the friendly societies through a service contract.

*Purpose:*

Abacus is the industry “voice” and represents the interests of all its members in policy debates with regulatory bodies and stakeholders including industry working groups, the media and the general public.

Abacus supports its member institutions with expert advice and support services including compliance, research and advisory and public affairs.

All mutual financial providers have closely aligned values in co-operation, trust, moral integrity, financial prudence, social responsibility and caring for members.

*Membership Statistics:* 111 credit unions and all 9 mutual building societies.

*Further Information:* Louise Petschler Chief Executive Officer (612) 8299 9036 (Tel), [lpetschler@abacus.org.au](mailto:lpetschler@abacus.org.au) (email)

## **3. Cuscal Ltd**

*Ownership:* Credit Unions, mutual building societies and other entities who own commercial shares issued by Cuscal.

Cuscal is a leading provider of wholesale and transactional banking services to specialist retail financial services institutions with a proud history of serving Australia’s credit unions for more than 30 years.

*Ownership Statistics:* As at December 2009 more than 120 retail financial institutions serving more than 3.5 million Australians are customers and/or owners.

*Further Information:* Contact Cuscal on (61 2) 8299 9000 (Telephone) or (61 2) 8299 9600 (Fax)

## **4. Indue Ltd (formerly Creditlink)**

Indue is an ADI that provides wholesale transactional payment products and other banking services for Credit Unions, Mortgage Originators, Building

Societies, Regional and Boutique Banks, Insurance Companies and Church Funds.

*Ownership:* Client organisations can subscribe capital to gain access to products and services and receive a dividend on their investment.

*Further Information:* Contact Indue on (617) 3258 4207 (Tel) or [www.indue.com.au](http://www.indue.com.au) (web) or [indue@indue.com.au](mailto:indue@indue.com.au) (email)

## **5. Australian Settlements Ltd (ASL)**

ASL provides payments and settlement services to building societies and credit unions.

*Mission:* is to continue as a profitable, independent company providing smaller ADIs with competitively priced, high quality payments services and effective representation on payments related services.

*Ownership:* Building Societies.

*Membership Statistics:* Some 16 members mostly building societies.

*Further Information:* Contact (612) 6281 1588 (Tel) or [info@asl.com.au](mailto:info@asl.com.au) (email) or [www.asl.com.au](http://www.asl.com.au) (web).

## **6. Credit Union Foundation Australia (CUFA)**

CUFA is the development agency for the Australian Credit Union Movement. CUFA has both a domestic and international development focus in its activities.

CUFA supports Australian credit unions to achieve and promote sustainable, corporate, economic, social and environmental practice, and to promote financial and social well-being in communities.

CUFA also develops community access to affordable financial services in the Asia Pacific region working co-operatively at grass roots through the government levels, building capacity in emerging credit union movements to create sustainability, improve lives and relieve or remove poverty.

*Vision:* Credit Unions promoting financial and social well-being in communities.

*Mission:* Empowering communities through access to affordable financial services.

*Ownership:* CUFA was formed, through a Trust Deed established by Cuscal, as a registered non government aid agency focused on the development of viable credit unions in the communities of the Asia Pacific region and the Aboriginal and Torres Strait Island people in Australia. In more recent times CUFA has expanded its charter to provide Australian Credit Unions with a co-ordinated social responsibility strategy and now sits within Abacus rather than Cuscal.

*Membership Statistics:* a high percentage of credit unions make donations to support the work of CUFA and many also provide voluntary technical resources through the Development Education Program to support CUFA's field work.

*Further Information:* Contact Peter Mason Executive Officer (612) 8299 9059 (Tel) [cufa@cuscal.com.au](mailto:cufa@cuscal.com.au) (email).

## **7. CUNA Mutual Group**

*Overview and Ownership:* The CUNA Mutual Group is the leading provider of financial services to credit unions and their members worldwide, offering lending, protection, financial, employee and member solutions through strategic partnerships, technological innovations and multiple service channels. The mutual insurers of the CUNA Mutual Group are owned by their 500,000 policyholders and operate to serve their best interests. The CUNA Mutual Group had \$13.2B in assets, \$12B in liabilities and \$1.2B in policy owners' surplus as at 31<sup>st</sup> December 2008.

*Vision:* Being the best at serving credit unions and their members.

*Mission:* Creating financial security.

*Further Information:* [www.cunamutual.com](http://www.cunamutual.com)

## **8. FutureStaff**

*Overview & Ownership:* FutureStaff is a public company owned by RG146 Training Australia. FutureStaff is a specialist provider of recruitment, personnel and training solutions for the financial services sector. FutureStaff is a Group Training Company as well as a Registered Training Organisation servicing the Credit Union movement and the broader financial services sector in both the provision of traineeships and the delivery of competency based training.

*Mission:* To be the leading financial services recruitment, personnel and training solutions provider.

*Further Information:* (613) 8223 1300 (Tel) [enquiry@futurestaff.com.au](mailto:enquiry@futurestaff.com.au) (email), [www.futurestaff.com.au](http://www.futurestaff.com.au) (web)

## **9. Australian Credit Union Archives (ACUA)**

*Ownership:* Formed through a Trust Deed established by Australian Credit Union Historical Co-operative (ACUHC), CUSCAL and NCUA.

*Objectives:* Established to ensure that historical records and the history relating to the Australian Credit Union Movement are preserved and recorded.

*Further Information:* Contact ACUA on (61) 02 9319 2850

Fax: 02 9319 2849  
Email: [Enquiries@mycuhistory.com.au](mailto:Enquiries@mycuhistory.com.au)  
Website: [www.mycuhistory.com.au](http://www.mycuhistory.com.au)

## **10. Institute of Credit Union Management New Zealand (ICUMNZ)**

*Ownership:* Unincorporated society consisting of managers and supervisory staff in the Credit Union Movement in New Zealand. The rules allow for admission of associated members who do not hold positions of responsibility in a credit union.

*Mission:* To promote the self-development of credit union managers and that of the credit union industry generally.

*Further Information:* Chair of the Committee, Gillian Wynne, First Credit Union, C/ - Tauranga Hospital Private Bag 12024 Tauranga Mail Centre Tauranga 3143

## **11. Colin Smith Memorial Foundation**

*Ownership:* Incorporation by way of charitable trust registered under the Charitable Trusts ACT 1957 which is administered by a Board of three Trustees appointed by the NZACU Board.

*Objects:* To promote and advance the Credit Union Movement by publicity, advertising and education within New Zealand.

*Further Information:* The Trustees, C/ - NZACU PO Box 37590 Parnell Auckland New Zealand on 64 9 309 9571 (facsimile)

## **12. New Zealand Credit Union Foundation**

*Ownership:* a self administered fund established under the rules of the New Zealand Association of Credit Unions which is administered by a board of up to five trustees/managers.

*Mission:* To promote and assist overseas credit union projects in the South Pacific basin.

*Further Information:* NZACU, PO Box 57 590, Parnell, Auckland on 64 9 309 9571 (facsimile)

### 13. Credit Union Institute of New Zealand Inc (CUINZ):

*Ownership:* Directors and senior executives of Credit Unions who take out membership of their Institute. Staff and other members of credit unions may also join CUINZ if approved by the board of their credit union.

CUINZ was formed in September 2006 to take over the function of the Curricular & Qualifications Board. Its purpose is to drive the education, training and development of directors and managers in credit unions, in the legislative direction taken by the NZ government in order to fulfil its obligations concerning the regulation and supervision of financial services.

Broadly itemised, the objectives of the Institute are to:

- Promote and administer standards of education, training and development for directors and senior executives
- Approve curricula, qualifications and certifications
- Promote continuing professional development
- Administer a code of ethics
- Act as a co-regulator and liaison with the official regulatory agencies appointed by Government.

CUINZ is directed by a 5 person Council that is partly appointed by the Board of the New Zealand Association of Credit Unions, and partly elected. Routine administration is in the hands of the Registrar who is a member of the Council.

*Membership:* The rules of the New Zealand Association of Credit Unions requires that every member credit union must ensure that their directors enrol as a member of the Institute, and is subject to its code of ethics. In NZ where credit unions are registered societies and do not have a corporate identity as in other countries, a manager who sits with the board or is otherwise able to influence the direction taken in the governance of the credit union, is deemed to be a director.

Any director or senior executive may be admitted as a non-voting **Associate** of the Institute. Full **Members** may be admitted on completion of the NZACU Certificate and Credit Union Governance, or other relevant qualifications and / or governance or management experience. Members are entitled to use the distinguishing post-nominal of M.CUINZ. **Fellowship** is restricted to those members who have completed the NZACU Advanced Certificate of Credit Union Governance, or other relevant qualifications, or given exemplary service to the credit union movement. Fellows are entitled to use the distinguishing post-nominal of F.CUINZ.

*Statistics:* As at 18 December 2009 the membership was 125

*Further Information:* Contact Registrar (0064)93099551 Ext 906  
Email: [margaretf@cuinz.org.nz](mailto:margaretf@cuinz.org.nz)  
Website: [www.cuinz.org.nz](http://www.cuinz.org.nz)



## **1.5 History of Australasian Credit Union Movements**

The following is a short history of the evolution of the Australian and New Zealand Credit Union Movements and their support organisations.

- 1930s Several small independent credit unions (money clubs) established in New Zealand
- 1946 First Credit Union in Australia (NSW)
- 1951 Father Marion Gainey visited New Zealand to establish Catholic Credit Unions
- 1956 New South Wales Association formed
- 1957 Victorian Association formed
- 1961 New Zealand League formed
- 1963 Queensland Association formed
- 1964 First State Association [NSW] liquidity support fund for member Credit Unions
- 1966 South Australian Association formed  
Tasmanian Association formed  
Western Australian Association formed  
Australian Federation of Credit Unions Limited [AFCUL] formed  
New South Wales, Queensland, Western Australia and Tasmanian Associations joined AFCUL
- 1967 Victorian Association joined AFCUL  
ACT Association formed  
South Australian and ACT Associations joined AFCUL
- 1971 First State Association Central Banking facility for member Credit Unions
- 1971 Credit Union Foundation Australia formed
- 1977 Australia's first ATM installed at a Queensland Credit Union
- 1978 Financial Computing Services [FCS] established with 50% Association ownership [ANSWCU]  
Institute of Credit Union Directors (ICUD) formed in NSW
- 1981 First pilot POS scheme in Australia conducted by a South Australian Credit Union  
Australian Institute of Credit Union Management (AICUM) formed.
- 1982 First Credit Union Visa Cards issued
- 1983 New South Wales Association became a principal member of Visa International  
AFCUL represented approximately 85% of Australian Credit Union

- members
- 1984 FCS fully owned by Associations [mainly NSW and Victoria]  
 NAB agreement to act as a clearing Bank for Credit Union Association of New South Wales - Member chequing introduced  
 First International Visa withdrawal anywhere in the world from a Credit Union Rediteller [ATM] in Sydney  
 Credit Union Financial Services of Australia Limited formed to provide a national financial facility  
 New Zealand League introduced Central Banking facility
- 1985 Credit Union cards access EFTPOS
- 1986 First national Credit Union ADF, a Capital Growth Fund, established
- 1987 New Zealand League established on-line computer bureau
- 1988 ICUD - Australia (ICUDA) formed
- 1989 Project Renewal commissioned  
 New Zealand legislators reject request to establish Savings Reserve Fund
- 1990 Project Renewal adopted by Credit Unions  
 NCUA formed.  
 New Zealand League renamed New Zealand Association of Credit Unions (NZACU)
- 1991 South Australian, Western Australia and Tasmanian Association Transfer of Engagements to ASC
- 1992 Victorian Association transfer of engagement to ASC  
 ASC becomes Credit Union Services Corporation [Australia] Limited [CUSCAL], CUSCAL/CUFSAL registered as SSPs  
 Credit Link formed, CUSS/CUTS registered as SSPs  
 AFIC Legislation enacted in all Australian States and Territories
- 1993 NSW Association transfer of engagements to CUSCAL, A number of Queensland Credit Unions join CUSCAL  
 Section 23G Taxation Exemption revoked for most Credit Unions
- 1995 Australian Institute of Credit Union Directors formed (AICUD)  
 Six State ICUD's & ICUDA transfer engagements to AICUD  
 NZACU introduce Access Card and Co-operative marketing logo under license arrangement with Credit Union Services Corporation
- 1996 Australian Credit Union Movement celebrates jubilee releasing an historical account of the first 50 years "People Before Profit" authored by Dr Gary Lewis  
 New Zealand Region established within AICUD
- 1997 Australian credit unions affiliated with CUSCAL adopt new Principles for Mutuality and Capital Formation.  
 Wallis Committee recommends new national legislation for credit unions and other NBFIs in place of the Financial Institutions Code.

- 1999 Credit Unions commence transition to Corporations Law and Australian Prudential Regulation.  
CUSCAL affiliated credit unions develop an Industry Support Contract in partnership with CUSCAL and Credit Union Financial Support System to replace the previous.  
Emergency Liquidity Support System and the state based contingency funds.
- 2000 CUSCAL wins the Reduced Inputs Tax Credit concession from Government to enable credit unions to claim 75% RITC on financial services that are input taxed and are provided by credit union owned service providers.  
Goods and Services Tax System implemented from 1<sup>st</sup> July 2003.  
Credit Unions must submit a new Constitution to members at their 2000 AGM and following approval submit it to ASIC to complete their transition to Corporations Law by 31<sup>st</sup> December 2000.  
ASIC released Policy Statement 147 *Mutuality – Financial Institutions*.  
APRA released harmonised prudential standards for all ADIs.  
Regulations introduced in New Zealand whereby credit unions are required to come under a trust deed regime and appoint one of five Trustee Corporations approved by Parliament to be their prudential supervisor.
- 2001 CUSCAL affiliated credit unions launch the Way Ahead Taskforce.  
APRA publishes draft prudential standards about Board Composition for ADI's. Both CUSCAL and AICUD provide written submissions to APRA.  
AICUD in a first lodged a formal submission with APRA during the consultative period following the release of the draft prudential standard on Board Composition for ADIs.
- 2002 Way Ahead Taskforce reports its findings and a Way Ahead Development Group is appointed to prepare an implementation plan for approval by member credit unions.  
AICUD publishes a document for discussion among credit union directors about the merits of establishing a single united national trade association for Australian credit unions.  
The two year transition phase for FSR commences with all ADI's required to secure an Australian Financial Services license by 11<sup>th</sup> March 2004 in order to market financial products and service other than credit
- 2003 CUSCAL affiliated Credit Unions adopt a new Governance Structure and the Membership Council is disbanded. The new structure involves establishment of an Industry Association Advisory Committee and the creation of two distinct divisions within CUSCAL. CUSCAL retained the commercial services business whilst Credit Union Industry

Association (CUIA) was created to manage the industry association.

Credit Unions begin to apply for their AFS licenses after an extensive period of preparation.

2004 All credit unions secure their AFS licenses in time for the March 2004 full implementation of FSR.

CUSCAL embarked on a three year strategic plan to reduce its thirst for credit union capital and to build the capability to provide credit unions with a commercial return on the remaining capital invested.

The separate Boards of the Member Services Division and the Business Services under the control of the NZACU board.

2005 Credit Unions commence the implementation of the Australian Institute of Financial Reporting System (AIFRS) which was completed with the presentation of the 2005/2006 Financial Reports.

In May 2005 it became public that Mackay Permanent Building Society (a listed company) had been mounting a hostile takeover attempt of Capricornia Credit Union by exploiting weaknesses in both the regulation of takeovers of mutuals and access to a mutual's share register (member register) by ASIC. This case was fought at both the credit union and movement levels leading to new alliances between other mutuals eg. building societies and friendly societies. It was also fought legally firstly through the AAT and then through a full bench hearing of the Federal Court.

On 7<sup>th</sup> September CUSCAL secured approval from member credit unions for significant changes to its Constitution enabling mutual building societies to become full shareholders, ending all previous customer lock in arrangements and opening up limited opportunities for non mutual shareholders and mechanisms to raise capital from sources other than credit unions.

2006 On 1<sup>st</sup> January AICUD and AICUM merged to form the Australasian Credit Union Institute (ACUI) a single professional association for all credit union directors and senior managers.

From 1<sup>st</sup> July CUIA entered into a joint venture with Australian Association of Permanent Building Societies (AAPBS) to create Abacus – Australian Mutuals a powerful new industry association representing around 122 credit unions and 9 mutual building societies with 4.5 million members and \$50B in assets.

StateWest Credit Society demutualised then merged with Home Building Society which is a listed company. They announced their intention to apply for a banking license to create a new regional banking force in Western Australia.

In accordance with Trans-Tasman governmental arrangement and directions being taken by the International Organisation of Securities

Commissions, the New Zealand Government followed the introduction of APS510 and APS520 in Australia with a series of 9 discussion documents pending legislation that will introduce into New Zealand, fit and proper assurance approvals in the financial services industry, and licensing of providers of financial services.

The Credit Union Institute of New Zealand Inc (CUINZ) was formed in September 2006 as the professional institute for directors and managers in New Zealand credit unions. CUINZ assumed the function of the Curricular & Qualifications Board in a self regulatory role designed to support Government's objectives around "fit and proper" assurance checks and the licensing of financial services and products.

2007 In February ACUI gained approval from its members for a name change to Australasian Mutuals Institute reflecting a broadening of the membership criteria to include directors and managers from mutual building societies and other mutual organisations. The new name took effect from 1<sup>st</sup> April 2007.

In May 2007 National Credit Union Association (NCUA) and its members joined Abacus bringing 20 more credit unions to the alliance. Heritage Building Society also joined Abacus independently eventually achieving the long term goal of having a single industry association representing all credit unions and mutual building societies.

Abacus was now owned and governed by three associations (CUIA – 60%, AAPBS – 20% & NCUA – 20%).

2008 From 1<sup>st</sup> July 2008 the Friendly Societies joined Abacus by way of a service agreement with Abacus now representing 169 member institutions collectively serving more than six million members with assets of \$76B.

During September Lehmann Brothers in the USA collapsed triggering a **global financial crisis** almost bringing the world's financial system to the point of collapse. Whilst the Australian Financial system stood up better than all others among OECD nations there were still some significant impacts upon mutual ADIs including:-

- The Federal Government's intervention in October by way of a Government Retail Deposit Guarantee system that stemmed the flight to quality by covering banks, credit unions and building societies deposits up to \$1m by calming public fears about the prudential safety of these institutions.
- RBA intervention which saw the official cash rate drop from 7.25% to 3.00% within a six month period from Sept to March causing a significant interest margin squeeze which had a severe impact on

profitability in 2008/09 year.

2009 Abacus restructured its governance system from 1<sup>st</sup> July 2009 replacing the original three association ownership structure with a direct ownership structure involving each mutual ADI as an owner.

Abacus launched the Mutual Banking Code of Practice from 1<sup>st</sup> July replacing all precedent codes of practice and making ten key promises to members involving establishing higher standards than the law requires in a number of areas.

MyState Financial Credit Union demutualised in September in order to prosecute a merger with Perpetual Trustees to create a broader based financial services institution within the Tasmanian market.

## **1.6 Credit Union Values and Ethics - Mutual Banking Code of Practice**

The primary role of Credit Union Services Corporation's Membership Council within the governance system for its affiliated credit unions between 1990 and 2002 was to be the keeper of the Credit Union Movement values and philosophy. Following the restructure of CUSCAL at the 2002 AGM these responsibilities passed to the Industry Association Advisory Committee.

Following its formation in November 1990 the Membership Council established a Values Taskforce to develop a values and ethics process for credit unions as a key means of differentiating credit unions from their competitors in the retail financial services marketplace.

By 1992 a draft code of ethics and duties to stakeholders was produced for consideration through the democratic processes of the CUSCAL affiliated credit unions. This draft resulted from the National Planning Council (Membership Council, CUSCAL Board and Senior Management) in September of that year and was processed through a lengthy session with credit union delegates at the CUSCAL National Convention in November. The various existing State Codes of Ethics and documents produced by WOCCU in relation to the International Project concerning movement philosophy and values were used as source material for the draft.

The draft document was then tabled through the district meeting process during 1993 and then debated by discussion groups in July / August before being finalised into the "Philosophy and Principles" booklet incorporating the core values which was adopted at the CUSCAL Annual General Meeting (AGM) in November 1993.

It consists of the six core values of the movement and breaks into three tiers:

<b>1. Cooperation</b>	<b>4. Financial Prudence</b>
<b>2. Moral Integrity</b>	<b>5. Caring for Members</b>
<b>3. Trust</b>	<b>6. Social Responsibility</b>

**Tier 1:** A **Code of Ethics** expressing fundamental principles and providing guidance in cases where no specific rule was in place.

**Tier 2:** **Duties to Stakeholders** including the ethical behaviours derived from values that related to each of the Stake holder Groups within the movement.

**Tier 3:** **The Credit Union Code of Practice** which was developed in consultation with the Government and provides more specific

guidance than the code of ethics when credit unions deal with their members.

Following the endorsement at the November 1993 Annual General Meeting the Membership Council's Taskforce then focused on a number of key aspects necessary to support the working of the values process and the integration of the values through credit unions and the movement generally including:

- Establishment of procedures for mediation and adjudication where disputes can be processed fairly in accordance with natural justice.
- Agreement by the CUSCAL affiliated credit unions at the November 1994 AGM that compliance with the philosophy and principles document become a mandatory requirement of membership with CUSCAL.
- Production of a training kit "Values Into Action - The Credit Union Advantage" to enable all directors and staff to learn, appreciate and practise with Credit Union values in their day-to-day activities.

The procedures for resolution or adjudication on disputes established by the Membership Council were:

- *The Values Secretariat* - receives complaints and forwards them to a referral committee provided the complaint is not spurious or vexatious, after having appointed that committee through nomination of eligible membership councillors. The Values Secretariat role is fulfilled by the Council Executive Committee
- *The Referral Committee* - comprises three councillors who have declared no vested interest in the dispute at hand. The Referral Committee examines the complaint to ascertain if matters of an ethical nature are involved, and if so, they will refer it to the Ethics Committee for a ruling.
- *The Ethics Committee* - is chaired by an independent person (an eminent legal authority) and additionally comprises two nominated membership councillors. Professor Warren Pengilly, Professor of Commercial Law - The University of Newcastle has been appointed Chairman.

The Ethics Committee, following its deliberations would make rulings and then advise the Membership Council Executive of its decision for action and dissemination through the Membership Council to the affiliated movement. It could:

- Advise a range of measures to achieve a resolution of the complaint or dispute. It may contribute towards a mediation - conciliation function.
- Suggest a sanction which may include:
  - letter of warning to credit union chairperson;



- naming a stakeholder in its annual report to the CUSCAL AGM for repeatedly breaking ethical standards or refusal to abide by a ruling.
- removal of the ethical mark of compliance from a stakeholder.
- recommendation that the members conduct should be considered by an AGM of members of CUSCAL.
- recommendation to a CUSCAL AGM that the member has engaged in an expellable conduct.

Decisions of the Ethics Committee will form a body of case rulings, which over time will become the Schedule of Rulings and Sanctions on Ethical Behaviours. The scope of all sanctions will be agreed at successive AGMs before any of them are applied. This includes the ultimate sanction - no credit union can be expelled without endorsement of that action by the CUSCAL AGM.

To date there have been five issues brought to the Values Secretariat since the implementation of the process from 01 July 1995. The first and third matters were determined to be of an ethical nature by the Referral Committee resulting in an Ethics Committee being formed to consider each of the issues and then leading to rulings being issued in each case. The second and the fourth matters were not judged to be of an ethical nature. The fifth matter was referred to the Ethics Committee in June 2000 with the findings by the Ethics Committee advised to the parties to the dispute in December 2000. There have been no further disputes submitted to the Values Secretariat since 2000.

However, the fourth matter together with the earlier experience of the Sunstate Credit Union demutualisation, did lead to some changes being developed during 1999 for amendment of the Philosophy and Principles booklet. These sought to place a stronger emphasis on educating members about the value to them of mutuality principles and to ensure that should they have to make a decision about whether or not to accept a demutualisation proposal that they were properly informed about all the benefits and disadvantages.

The Membership Council further prepared documentation to assist credit unions utilise the values process. Part of this support has included development of templates to survey the application of the values and ethics in credit unions from both the staff and the members' perspective.

### **Values in Action**

In July 2002 the Membership Council launched *Values in Action* – a new guide for credit union board members, managers and staff about the practical application of credit union values in their day to day work situations.

This publication marks the completion of the set of values statements, measures and processes for credit unions which were developed as one of the major projects of the Membership Council. The set, which is to be reviewed from time to time includes: -

- the Philosophy and Principles which documents the Credit Union Values; the Codes of Ethics; the Statement of Duties to Stakeholders; and the Credit Union Code of Practice;
- the process for mediating internal disputes between stakeholders;
- the guidelines for application of credit union values; and
- a survey instrument for measurement of the extent to which the values are being applied.

Following the Way Ahead Strategy restructure of CUSCAL in November 2002 (AGM) and May 2003 (SGM) the Membership Council was disbanded and all responsibilities for administering the Values process passed to the Industry Association Advisory Committee. The Values Secretariat from then on administered by the General Manager, Industry Association at CUSCAL.

The formation of Abacus – Australia Mutuals from 1<sup>st</sup> July 2006 saw the Values Secretariat move into Abacus where new consideration had to be given about to how best to administer the “Values Process” going forward given the broader membership base of mutual building societies, NCUA credit unions and later on the friendly societies.

### **Mutual Banking Code of Practice**

On 1<sup>st</sup> July 2009 Abacus launched the Mutual Banking Code of Practice for which all mutual ADIs that belong to Abacus subscribe. Credit unions and mutual building societies are owned by their members – this is what being a mutual means. As such mutual ADIs are focused on member-benefit, community involvement, fairer fees and customer services.

The code establishes higher standards than the law requires in a range of areas, and addresses issues not addressed in the law. In adopting the Code, mutual ADIs agree to abide by the higher standards and additional requirements set out in the Code.

#### ***Structure of the Code***

- Part A – Introduction
- Part B – Coverage, Commitment to Comply, Relation to Other Laws and Regulation.
- Part C – Our 10 Key Promises to You.
- Part D – Delivering on our Promises
- Part E – How the Code is Administered.

Refer to Chapter 2.12 for further information relating to the Mutual Banking Code of Practice.

## **New Zealand**

In 2005, the New Zealand Association of Credit Unions formally passed a code of ethics binding on all credit unions. This code governs the behaviour of credit unions towards one another, to their members, stakeholders and local communities, and between their Association and its member credit unions. The rules of the Association provide for the appointment of local ethics committees as and when required.

Under the rules of the New Zealand Association of Credit Unions, all member credit unions are required to ensure that as a condition of holding office, board appointments and nominees are eligible for membership of the Credit Union Institute of New Zealand Inc. The rules of the Credit Union Institute of New Zealand, its Code of Ethics, and disciplinary provisions, work to ensure that members be of good character (fit and proper), and pursue such education, training and development as will maximise their competence and capability as directors and senior executives.

The New Zealand legal environment also includes investment adviser, debt, securities, privacy and human rights legislation which additionally cover much of the matters and issues included in both the Association's and the Institute's codes of ethics. The Friendly Societies and Credit Unions Act 1982 provides for arbitration and settlement of disputes and in the past, this has largely overcome the necessity of appointing ethics committees.

Now that Credit Unions have been deemed financial service providers they must comply with the Financial Service Providers (Registration and Dispute Resolutions) Act 2008. This means that Credit Unions must be registered with the company's office, join an independent dispute resolution scheme (several will be available by mid 2010 – approved by the Ministry of Consumer Affairs) that will provide easy access to the public through a searchable register and will necessitate the vetting of directors and senior management.

## **1.7 Short History of the Building Society Movement**

Building societies have their roots in the self-help movement which evolved towards the end of the eighteenth century in England. The first building society was founded in Birmingham in 1775.

Building societies spread with British immigrants to Canada, New Zealand, South Africa and Australia.

The first building societies were established in Australia in 1850. They were terminating building societies (housing co-operatives) with savings and lot systems, but the disadvantages of their format (equal contributions, time lag, difficulty in withdrawing funds or getting new members) saw Permanent Societies established – with no need to wind up and capacity to service borrowers and savers who were not necessarily the same people.

The oldest of these permanent building societies still in existence today are in Tasmania (1870), Queensland (1875) and NSW (1880). Building Societies were relatively small regional institutions, present in all states of Australia, but not a significant element of the financial system. Legislation governing them was state based.

Between 1860 and 1890 there was a large period of growth in building societies in Australia, fuelled by building and construction expansion, with a focus on lower income Australians (supported by a mutual focus that informed their interest rates). However, relaxed loan criteria and inadequate regulatory structures (particularly in Victoria) saw some societies move into speculative investments and when the Melbourne land boom collapsed in 1890 so did many of the building societies with a rapid decline in their business (particularly in Victoria).

Following the second world war building societies actively participated in a huge housing boom in Australia with particularly strong growth in the 1960's and 1970's the sector hit its peak at 178 societies before declining to around 70 societies by the end of 1985 through rationalisations and mergers. Building Societies were now playing a very strong role in the financial system.

Between 1985 and 1995 a number of the large co-operative building societies responded to changing regulatory structures and growth ambitions by demutualising and then converting to banks. During the 1980's half of the assets of building societies were transferred to banks during the early 1990's further transfers and demutualisations occurred (the biggest being St George turning into a bank in 1992 and Bendigo in 1995). This saw the number of building societies reduced from 71 to 29.

In 1999 Building Societies transferred to national jurisdiction after 140 years of State legislation through the implementation of the Wallis Committee recommendations. From then on Building Societies have been licensed under the Banking Act by APRA and subject to the Corporations Act for corporate governance.

Between 2003 and 2004 all building societies successfully negotiated the transition under the Financial Sector Reform Act to secure their Australian Financial Services license.

On 1<sup>st</sup> July 2006 the Australian Association of Permanent Building Societies (AAPBS) established a joint venture with Credit Union Industry Association (CUIA) to form a new industry body for mutual banking institutions, Abacus – Australian Mutuals.

From 1<sup>st</sup> July 2009 the governance structure of Abacus changed whereby ownership passed from the three associations viz CUIA, AAPBS & NCUA directly to the member credit unions and building societies.

By December 2009 there were just 11 building societies remaining in Australia following the merger of the listed Home Building Society with Bank of Queensland. These Building Societies are all focused on regional communities throughout Australia serving over one million members with around \$29B in assets.

Nine of these building societies are mutuals and are all members of Abacus whilst the other two building societies are listed companies on the stock exchange.