



Sector impact assessment of Customer Owned Banking in Australia



CUSTOMER
OWNED
BANKING
ASSOCIATION



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Sector impact
assessment of
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Introduction and summary



Introduction and context

The Customer Owned Banking Association (COBA) is the industry association for Australia's customer owned banking institutions (mutual banks, credit unions and building societies).

Customer owned banking institutions account for almost three quarters of the total number of domestic Authorised Deposit-taking Institutions (ADIs). They deliver competition and choice in retail banking.

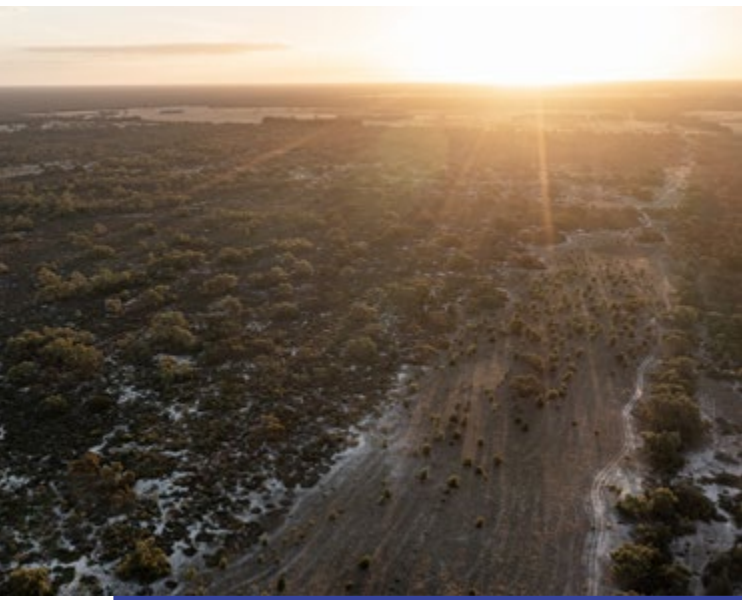
Customer owned banks, as the name suggests, are owned by their customers. Each customer (or member) is a shareholder, with 100% of the profits generated reinvested into the business.

The sector is regulated in exactly the same way as other banks. All ADIs meet the same legally-enforceable standards, under the Banking Act and with strict oversight by the Australian Prudential Regulation Authority (APRA).

The sector has a strong track record of socially responsible lending. Mutual banking institutions are the original peer-to-peer lenders, founded on the principle of giving back to the community. Customer owned banks are committed to social responsibility, environmental sustainability, and financial literacy.

While COBA's members are spread throughout the country there is a noticeably strong presence for this ownership model in regional Australia. The head offices of eight of the 10 largest customer owned banking institutions are located outside Sydney and Melbourne, including in Brisbane, Adelaide and Perth and in regional centres such as Toowoomba, Newcastle and Wollongong.

COBA has commissioned KPMG to conduct an assessment of the impact of the customer owned banking sector financially and economically as well as on members, staff and its wide communities.



SECTOR IMPACT ASSESSMENT OF CUSTOMER OWNED BANKING IN AUSTRALIA

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Executive summary

Customer-owned banks have a unique proposition in Australian banking. Their mutual ownership model means that their customers are also their shareholders.

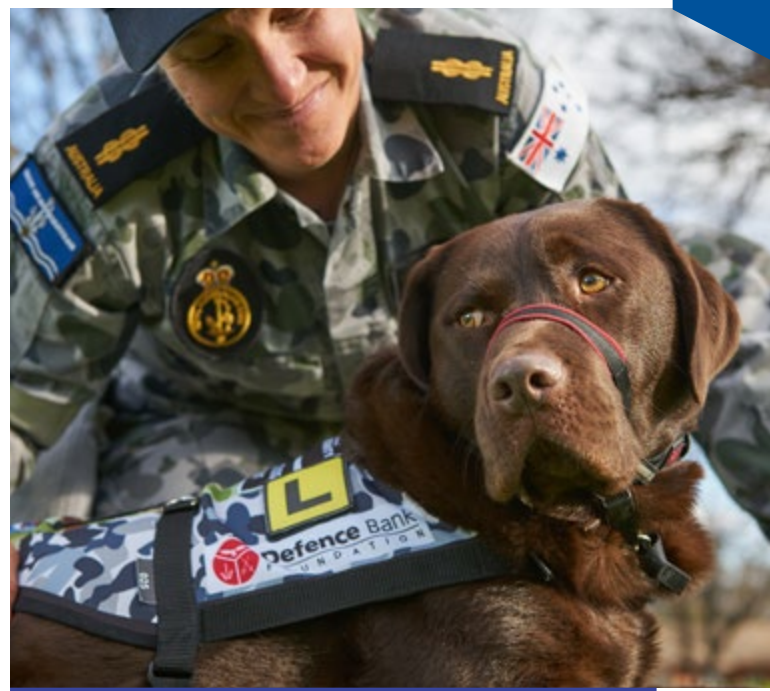
The sector is also unique because the customer owned banks, which individually are all relatively small, are collectively both small and large at the same time:

- Although they collectively form the biggest alternative to the four major banks, they are still relatively small by customer numbers, assets, total loans and revenue
- The sector is large when measured by number of banks, branch footprint and its presence in regional Australia

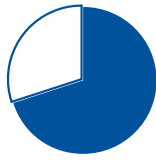
Aside from the headline statistics, the customer owned banks 'punch above their weight' because they:

- Are considered the primary financial institution by over 10 percent of the adult population
- Provide an unparalleled demand for skilled employees in regional locations (e.g., a CRO in Shepparton, a cyber specialist in Lismore and an internal auditor in Townsville)
- Actively contribute to their sector-based and geographic communities, including through generous donations to charitable organisations and community sponsorships

In addition, the economic footprint of the sector is much greater than its direct economic contribution (e.g., because of external suppliers). For illustration's sake, a sudden, unplanned closure of the industry as calculated under the KPMG-CGE model would result in an economic impact that is three times the size of the direct loss in wages, profits and taxes.



Impact Factsheet



70%

The 61 customer owned banks represent 70% of all ADIs in the Australian market



The sector directly contributed \$2.0b to Australian GDP in FY22, but its wider economic 'footprint' is equal to \$5.7b



49%

49% of the 5m plus members use their customer owned bank as their primary financial institution



5.5%

The sector's focus on helping members own the home they live in results in a mortgage lending market share of over 5.5%, above-system growth and a higher proportion of lending to owner-occupiers and first home buyers

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720

With 720 branches throughout Australia, the sector operates 18% of total bank branches and 21% of branches in regional areas



11,200

people employed

by the sector across Australia, earning \$1.24b in wages



52%

Due to the sector's Australiawide footprint it provides skilled jobs in regional locations, with 52% of staff working and living outside metropolitan cities



Customer owned banks spent more than \$6 per member on charitable organisations and community sponsorships last financial year

Sector footprint by assets and revenue

Measured by headline financials only, Australia's 61 customer owned banks form a relatively small part of the banking sector.

As of November 2022, there are 61 customer owned ADIs (mutuals banks, credit unions and building societies) registered in Australia. Of these, 58 are members of COBA.

By number of institutions, the customer owned banks represent 70 percent of the total number of ADIs in the Australian market (86 Australian-owned ADIs and foreign subsidiary banks in total).

Combined, these banks have over 5 million customers. According to the survey, just under 50% of members use their customer owned bank as their primary financial institution. This means that over 10 percent of Australia's adult population of just over 20 million people has a customer owned bank as their main bank.

However, measured by financial footprint, the relatively small average size of the customer owned banks translates in a much smaller representation:

- \$158.8 billion in assets at the end of FY22, compared to \$4,370 billion for the four major banks ANZ, CBA, NAB and Westpac (a share of circa 3.5 percent)
- \$3.2 billion in revenue at the end of FY22, compared to \$80.7 billion for the four major banks (a share of about 4 percent)

Lending by customer owned banks

The sector has a deep heritage in and ongoing focus on mortgage lending, and it has a significant role helping Australians own the home they live in.

Total lending by the sector at the end of FY22 was \$120.9 billion, which represents 3.8 percent of lending by all Australian ADIs.

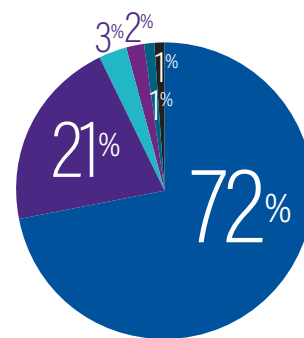
However, this picture starts to change when we consider mortgage lending only. For customer owned banks, mortgage lending represents a high 93 percent share of total loans. As a result, the \$112.7 billion in mortgage lending by the sector makes up 5.6 percent of mortgage lending by banks.

Customer owned banks are growing their combined market share in a competitive mortgage lending market. Mortgage loan growth has been 1.26, 1.20 and 1.33 times system in FY22, FY21 and FY20, respectively.

The share of mortgage lending by the sector to owner-occupiers is 77 percent. This is significantly higher than the prevalence for owner-occupiers (67 percent) of all mortgage lending by ADIs.

In addition, a share of more than 20 percent of mortgage lending by the sector is to first home buyers (compared to 16.5 percent for all mortgage lending in the market according to ABS data).

CUSTOMER OWNED BANKING
TOTAL LENDING BY TYPE
AS AT 30 JUNE 2022



- Owner-occupied residential
- Residential investment
- Small business loans
- Commercial lending
- Personal loans
- Other lending

SECTOR IMPACT ASSESSMENT OF CUSTOMER OWNED BANKING IN AUSTRALIA

GDP contribution

Customer owned banks add a significant \$5.7 billion to Australian GDP, when considering both their direct and indirect economic contributions.

The direct contribution of the sector to Australian GDP in FY22 comprises the sum of wages, profits and taxes. On this basis, customer owned banks contribute \$2.2 billion to the Australian economy with a combined wage bill of \$1.24 billion, \$765 million in profits and \$220 million in company taxes. This represents 0.09% of GDP.

For illustration purposes, this is a larger direct economic contribution than that of aquaculture, fishing, forestry, gas supply services, shipping or petroleum & coal product manufacturing which each have a wages bill of less than \$1 billion.

The full economic contribution of the sector also includes other factors such as non-wage expenditure and planned investments. As an illustration, the operating costs of the sector are higher than its direct economic contribution, at just under \$2.5 billion.

The economic footprint of the customer owned banking sector is much greater than its direct GDP contribution. The wider footprint also includes the impact on suppliers to the sector (e.g., technology providers, professional services), as well as the multiplier effect on the economy of income earned within the sector.

Using the KPMG-CGE model, a sudden, unplanned closure of the industry is estimated to result in Australian GDP being \$5.7 billion smaller and result in 32,800 job losses (compared to direct employment of 11,200 people). This analysis illustrates the economic importance of the sector.



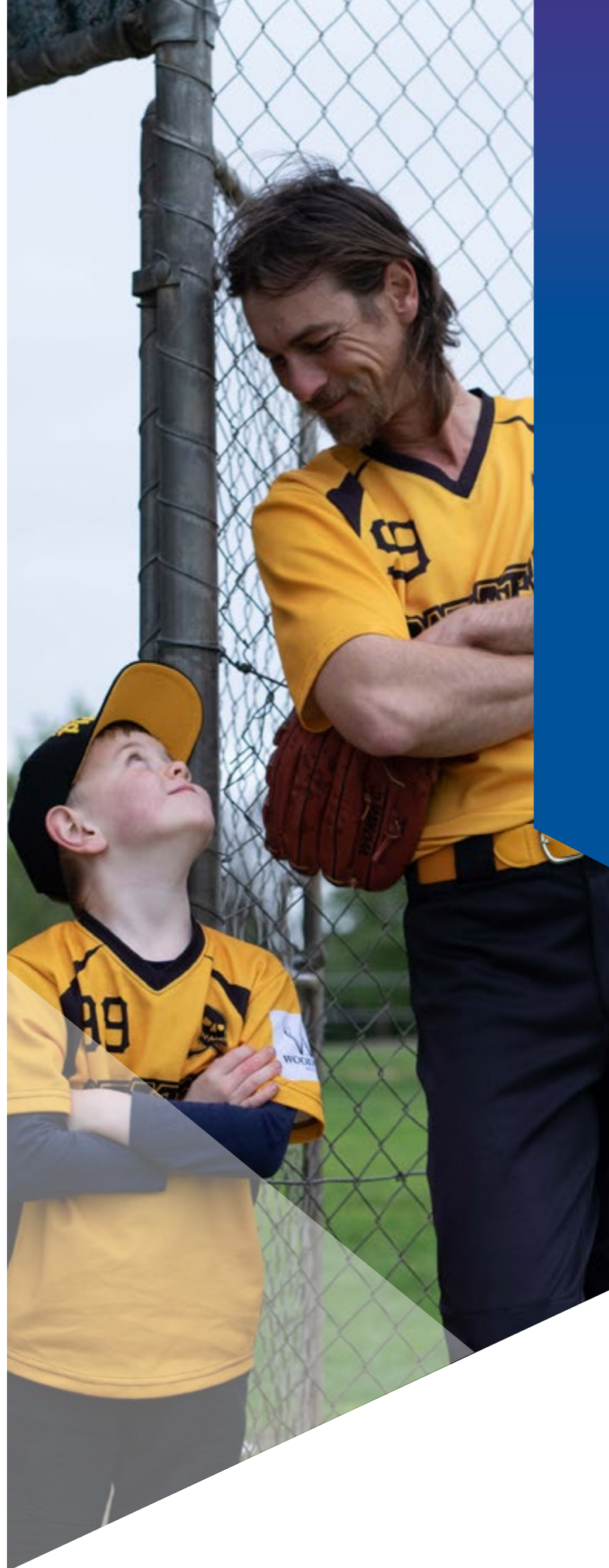
Additional job creation

The model of customer ownership translates into additional job creation, equivalent to about 5% of the sector's employment.

Last financial year the customer owned banks collectively employed around 11,200 FTE around Australia and spent \$1.24 billion on wages. This contribution would be smaller if the banks operated with a different model.

The economic model based on customer ownership, means that the banks are not seeking to maximise shareholders' return on equity. The customer owned banks accept lower profit margins in order to support their communities.

The structure of the sector facilitates around \$500 million of additional economic activity, creating some 600 incremental jobs per annum compared to an alternative 'commercial' model. This represents approximately 5 percent of sector employment.



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Member impact

Branch footprint

Relative to their financial footprint, customer owned banks are disproportionate supporters of local communities through vibrant branch networks.

Customer owned banks are deeply rooted in their communities. While many of them serve different communities, such as sector-based or purposebased, the majority continue to serve a geographic heartland.

According to APRA points of presence data, the sector operates 720 branches throughout Australia, or 18 percent of the 4,014 total bank branches.

346 of these customer owned banking branches (or 48 percent) are outside the metropolitan and other major cities. This represents 21 percent of the 1,682 branches in these regional areas by the entire banking system.

In addition, the sector slowly reduced its branch footprint by about 1 percent in FY22 – this compares favourably with the overall bank branch closure rate of more than 7 percent over the same year.



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Future proofing branches

Customer owned banks are actively working with community stakeholders to be able to viably continue to operate branches in smaller regional locations.



COUNCIL BRANCH MODEL

The Capricornian and the Central Highlands Regional Council have partnered to open 2 new branches that are hosted in council offices.

These council branches fill the gap on essential banking services in regional areas that are affected by branch closures.

This model allows customer-owned The Capricornian to expand into communities that are too small to support economically viable branches under a standard operating model.

The model is based on rent-free hosting of branch operations in the council office, as the council allows the bank to access existing infrastructure.

The Capricornian staffs these council branches with its own staff. It is responsible for all staff costs and other bank-specific running costs (including security and technology) and fully owns the revenues.

Heritage Bank

COMMUNITY BRANCH MODEL

Heritage Bank developed its Community Branch model in 1999, when smaller communities lost local banking services due to bank branch closures. It now operates 7 Community Branches.

These branches maintain a local banking services, create business infrastructure and deliver downstream economic impacts including local jobs.

The Community Branch model involves Heritage partnering with a community-based company that is established to operate the branch as a joint-venture.

The joint venture partners share initial set-up costs and ongoing expenses. Community investment and involvement ensure quicker viability and higher growth than traditional bank-owned branches.

Profits are shared equally and the community company returns its profit share to the community in the form of grants to local organisations.

SECTOR IMPACT ASSESSMENT OF CUSTOMER OWNED BANKING IN AUSTRALIA

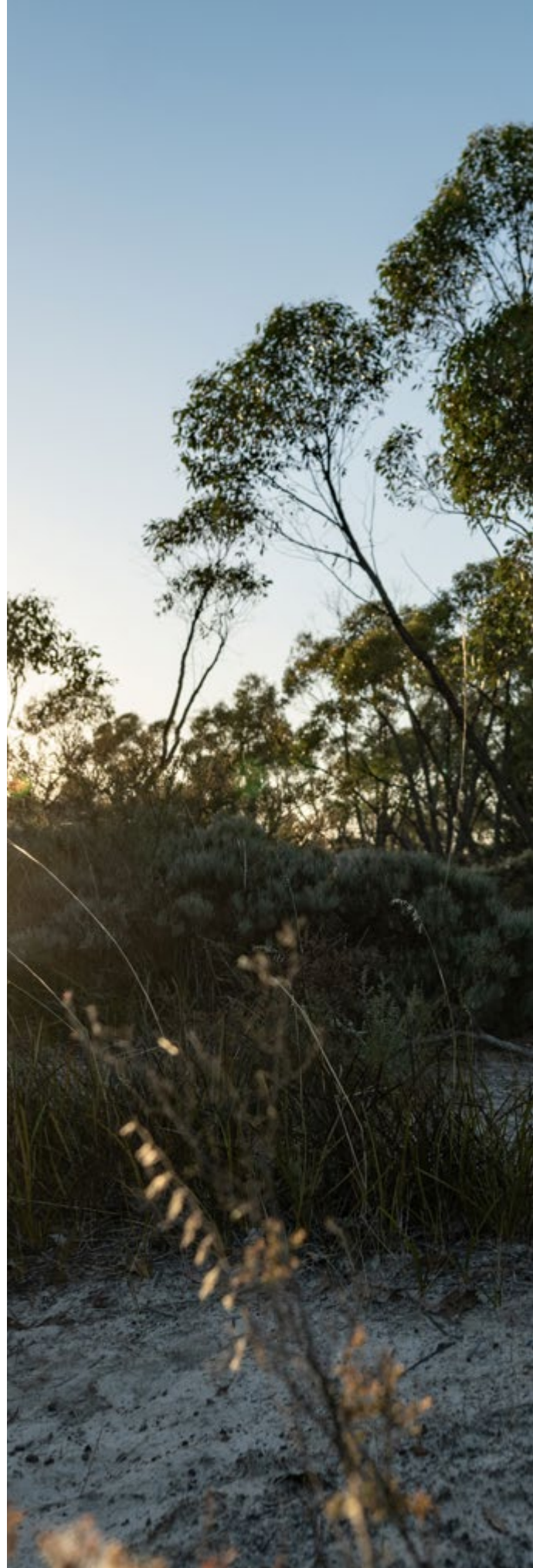
Rate subsidy

Customer ownership translates into an implicit significant lending rate subsidy to members, in lieu of shareholder dividends.

Seeing that their owners are their customers (seeking value from their bank) rather than shareholders (seeking dividend payments), customer owned banks have different profit objectives than investor owned banks.


In FY22, the net profit for customer owned banking sector in Australia was approximately 24 percent of total operating costs plus taxes. In comparison, an equivalent benchmark for investor owned banks is 39 percent. The profit margin difference represents a subsidy enjoyed by members in the form of pricing and customer service.

The full value of this subsidy to members is equivalent to a 0.3 percent discount to the market interest rate – which equates to over \$1,500 in interest annually on a \$500,000 mortgage.



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The sector has a deep heritage in and ongoing focus on mortgage lending, and it has a significant role helping Australians own the home they live in.

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Staff impact

Sector employment

The customer owned banking sector is a significant employer, although the total number of jobs in the sector is commensurate with its financial size.

The total number of jobs in the sector at the end of FY22 was 11,200 full time equivalents (FTEs), across Australia.

- The four major banks employed just over 160,000 FTE at the same point in time.

These employees earned a combined \$1.24 billion in wages. This equates to an average wage of more than \$110,000 per FTE.

- Despite the economy-wide staff shortages, the customer owned banking sector managed to recruit additional staff to support its growth. Total FTE numbers grew by 4.4% between FY21 and FY22.

As the major banks have been under shareholder pressure to reduce costs, they grew employment at a slower rate of 2.4% during the same year.



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Skilled regional jobs

High quality employment

The sector is an unrivalled provider of highly skilled jobs in financial services in regional locations, distributed across Australian communities.

Typically, commercial banks and other investor owned financial institutions are headquartered in metropolitan cities (especially Sydney and Melbourne, and to a lesser extent Brisbane). Most jobs (and certainly most management jobs) are located in the headquarters in these cities, while the vast majority of the remaining jobs outside the metropolitan areas are limited to branch staff.

Because customer owned banks are headquartered across Australia in a large number of geographic heartlands, a small majority of 52% of staff in the sector work and live outside metropolitan cities. This proportion is representative across functions and seniority of roles.

As a result, the customer owned banks provides almost 6,000 full time equivalent jobs in other major cities, regional cities and towns throughout all of the Australia, including a large number of highly skilled roles at every head office location:

- Senior management roles including CEO, CFO and CRO, as well as non-executive director positions
- Financial & non-financial risk as well as finance professionals
- Technology specialists across legacy and new technologies
- Professionals in HR, strategy and other support roles
- Senior operational roles in lending, payments etc

Regardless of location and role, customer owned banks provide a very strong employee value proposition.

Customer owned banks offer opportunities and career pathways for all staff, regardless of location and specialisation or skill level.

The career opportunities for employees within the sector are positive and diversified, which is being borne out by a number of employee value proposition elements including:

- Customer owned banks spend around 0.5 percent of their total operating costs on training and development for staff
- The number of staff earning a salary in excess of \$200,000 rose by 13% – about 3 times as much as the overall growth in staff numbers in the sector

As a result, the average length of tenure increased to 7.5 years from 7.3 years during FY22. Note that according to the government's HILDA data, the national average job tenure is 3.3 years.

SECTOR IMPACT ASSESSMENT OF CUSTOMER OWNED BANKING IN AUSTRALIA

Community impact

Community contributions

The sector is deeply involved in and supportive of the communities it belongs to, including through charitable financial contributions.

Customer owned banks make significant financial contributions to the communities that they are an integral part of. Their contributions to charitable organisations and their community sponsorship donations (excluding brand sponsorships) equal about \$6 per member per year.

- This compares favourably for instance to the four major banks. COBA analysis suggests that their financial community contributions are circa \$2 per customer on average

In addition, most banks in the sector encourage staff engagement with the local community through paid volunteering initiatives. This is estimated to be worth about \$13,000 annually per bank.

There are many good examples of community engagement in the sector, including:

- **Defence Bank** supporting serving and ex-serving Australian Defence Force members living with injuries or illnesses such as PTSD through the Defence Community Dogs program
- **Dnister Ukrainian Credit Co-operative** supporting Ukrainians displaced by war by explaining the Australian banking system, assisting with account applications and providing access to food, clothing and other supplies
- **Horizon Bank** partnering with Team Rescue to teach life saving techniques to children following the 2019 bushfires that devastated the NSW South Coast
- **Family First Bank** raising funds for mental health programs in remote and regional Australia



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Environmental footprint

The sector is ahead of the wider economy with regards to reducing its scope 1 greenhouse gas emissions.

The sector has successfully reduced its direct greenhouse gas emissions (scope 1) per member by between 10-20 percent per year, dependent on the scale of the banks:

- this is well ahead of the government's Climate Change Bills emissions reduction target of 43 per cent by 2050
- note that the ability to reduce direct emissions increases with bank scale, which is a disadvantage for the sector

Importantly, the sector does have room for improvement on two important aspects:

- uniform measurement, monitoring and reporting of emissions
- sector collaboration to harness scale in order to reduce direct emissions (such as through procurement solutions)

CO2e-t / 1,000 member			
Members	FY21	FY22	
> 50,000 members	8.7	7.2	8.7 7.2
< 50,000 members	11.5	10.2	11.5 10.2

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Appendices

Appendix A: scope and approach of assessment

- KPMG was engaged by COBA in July 2022 to conduct an impact assessment of the Customer Owned Banking Sector on the Australian economy.
- In undertaking this engagement KPMG analysed a range of primary and secondary data to identify key information on the structure, conduct and performance of the industry.
- KPMG also implemented a survey with COBA members during August and September 2022, collecting information by individual institution in the areas of financial performance, employment, customers, environment and community support.
- Using this information, combined with other data sourced from annual reports, KPMG then modelled a counter-factual scenario of what the Australian economy may look like in the absence of the customerowned banking sector.



Appendix B: KPMG-CGE model

KPMG-CGE is a computable general equilibrium (CGE) model of the Australian economy.

MODEL THEORY AND DATA

KPMG-CGE models the economy as a system of interrelated economic agents operating in competitive markets. Economic theory is used to specify the behaviour and market interactions of economic agents, including consumers, investors, producers and governments operating in domestic and foreign goods, capital and labour markets. Defining features of the theoretical structure of KPMG-CGE include:

- Optimising behaviour by households and businesses in the context of competitive markets with explicit resource constraints and budget constraints;
- The price mechanism operates to clear markets for goods and factors such as labour and capital (i.e., prices adjust so that supply equals demand); and
- At the margin, costs are equal to revenues in all economic activities.

The main features of KPMG-CGE are as follows.

- In dynamic mode, a simulation of the effects of a tax policy change involves running the model twice to create the baseline (or business-as-usual) scenario and the policy scenario. The baseline is designed to be a forecast of how the economy will evolve in the short run in the absence of the policy shock of interest. Thus, the paths of most macroeconomic variables are exogenous in the short-run and set in accordance with forecasts made by KPMG-MACRO (KPMG's macroeconomic model) and other macroeconomic forecasting groups (e.g., Commonwealth Treasury).
- In the long-run, the economy converges to a balanced growth path where all quantities grow by the 30-year average GDP growth rate and all prices by 2%. In the

policy scenario, most macroeconomic variables are endogenous. With the exception of the policy variables of interest (e.g., tax rates), all exogenous variables in the policy scenario are assigned the values they have in the baseline scenario. The differences in the values of variables in the policy and baseline scenarios quantifies the effects of moving the variables of interest away from their baseline values.

- The key data input used by KPMG-CGE is an input-output table that quantifies the flows of goods and services between producers and various users (e.g., intermediate inputs to other producers, inputs to capital creators, households, governments and foreigners) and the flows associated with primary factor inputs (i.e., labour, capital, land and natural resources). In KPMG-CGE the input-output database is combined with the model's theoretical structure to quantify sophisticated economic behavioural responses. KPMG-CGE distinguishes 117 sectors and commodities, based on an extended version of the 2015-16 input-output tables produced by the ABS.85F The data is then updated to reflect the 2018-18 national accounts. This process gives base data that represents the Australian economy in 2017-18.
- Primary factors are distinguished by 117 types of capital (one type per industry), nine occupations, two types of land (primary and non-primary production land), natural resource endowments (one per industry), and owner-operator labour. There is a representative firm in each sector that produces only one commodity. Commodities are distinguished between those destined for export markets and those destined for domestic sales, so that the ratio of export prices and domestic prices is variable.

SECTOR IMPACT ASSESSMENT OF CUSTOMER OWNED BANKING IN AUSTRALIA

APPENDIX B: KPMG-CGE MODEL CONTINUED

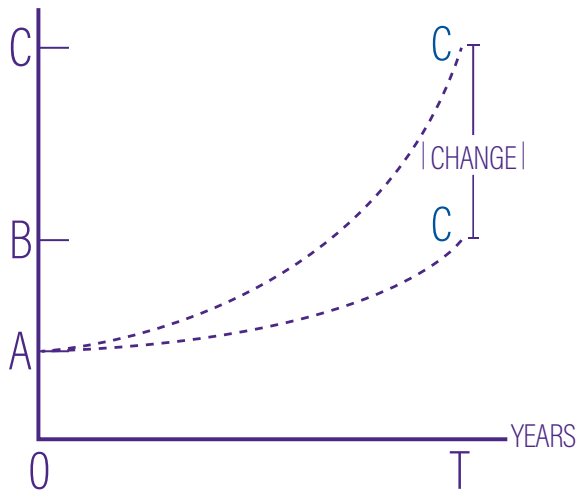
- Production technology is represented by nested CRESH functions (Hanoch, 1971) allowing a high degree of flexibility in the parameterisation of substitution and technology parameters. Energy goods are treated separately to other intermediate goods and services in production, and are complementary to primary factors.
- There is an infinitely-lived representative household agent that owns the major share of factors of production with foreigners owning the remainder; the representative household can either spend or save its income. Total household consumption is assumed to be a function of household disposable income and the average propensity to consume. In the long-run, the average propensity to consume is endogenous and adjusts so that the ratio of net foreign liabilities to GDP stabilises. This mimics time-consistent behaviour by households and imposes a budget constraint on household behaviour in the long-run. Household consumption decisions by commodity are determined by a Stone-Geary utility function that distinguishes between subsistence (necessity) and discretionary (luxury) consumption (Stone, 1954).^{87F}
- The supply of labour is determined by a labour-leisure trade-off that allows workers in each occupation to respond to changes in after-tax wage rates thus determining the hours of work they offer to the labour market. The overall supply of labour is normalised on working-age population.
- KPMG-CGE includes detailed commonwealth and state government fiscal accounts including the accumulation of public assets and liabilities; these are based on the ABS's Government Finance Statistics.^{88F} Detailed government revenue flows are modelled, including over 20 direct and indirect taxes and income from government enterprises, and government expenditure includes government consumption, investment and the payment of various types of transfers (such as pensions and unemployment benefits).
- Investment behaviour is industry specific and is positively related to the expected rate of return on capital. This rate takes into account company taxation and a variety of capital allowances, including the structure of the imputation system.
- Foreign asset and liability accumulation is explicitly modelled, as are the cross-border income flows they generate and that contribute to the evolution of the current account. Along with other foreign income flows like labour payments and unrequited transfers, KPMG-CGE takes account of primary and secondary income flows in Australia's current account; these are particularly important for Australia as they typically comprise the significant share of the balance on the current account.

MODEL OUTPUTS

To generate results, we run the model twice for each of the circular opportunities being assessed. First, we run a baseline simulation that captures the assumptions of the baseline scenario. Second, we run a simulation that captures the elements of the counterfactual scenario in addition to the baseline.

The economic effects of customer owned banking sector is measured by the difference in the values of economic variables between the baseline and counterfactual simulation results. This process is illustrated in the following figure.

ECONOMIC VARIABLE
(E.G. EMPLOYMENT)



To generate results, we run the model twice for each of the circular opportunities being assessed. First, we run a baseline simulation that captures the assumptions of the baseline scenario. Second, we run a simulation that captures the elements of the counterfactual scenario in addition to the baseline.



SECTOR IMPACT ASSESSMENT OF CUSTOMER OWNED BANKING IN AUSTRALIA

Appendix C: KPMG Industry Survey

Deposit & Lending Data	as at 30 June 2022	as at 30 June 2021
AUD value of retail deposits	\$	\$
AUD value of lending for owner occupied residential dwellings	\$	\$
AUD value of lending for residential investment dwellings	\$	\$
AUD value of lending for personal loans	\$	\$
AUD value of lending for small business loans	\$	\$
AUD value of lending for commercial property	\$	\$
AUD value of lending for other purposes	\$	\$
AUD value of lending for first home buyer owner occupied residential dwellings	\$	\$
Total number of first home buyer owner occupied loans	#	#
Customer Number Data	as at 30 June 2022	as at 30 June 2021
Number of personal banking customers	#	#
Number of small business banking customers	#	#
Number of personal banking customers where your bank is their primary financial institution	#	#
Customer Profile Data	as at 30 June 2022	as at 30 June 2021
Estimated average annual income of personal banking customers	\$	\$
Estimated average residential mortgage of personal banking customers	\$	\$
Number of personal banking customers who identify as Indigenous Australians	#	#
Bank Performance Data	as at 30 June 2022	as at 30 June 2021
Credit loss ratio	%	%
Company tax paid by Bank	\$	\$
Customer satisfaction score (Canstar rating)	#	#
Annual number of customer complaints	#	#

SECTOR IMPACT ASSESSMENT OF CUSTOMER OWNED BANKING IN AUSTRALIA

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Bank Operations Data	as at 30 June 2022	as at 30 June 2021
Number of FTE personnel employed by the Bank	#	#
Number of FTE personnel employed at Bank Headquarters	#	#
Number of FTE personnel employed in Australian Metropolitan Areas (ie: capital cities)	#	#
Number of FTE personnel employed in offshore locations (ie: not in Australia)	#	#
Number of FTE personnel employed on contract	#	#
Total wages and salary (including bonuses) paid by the Bank to staff	\$	\$
Number of FTE personnel employed in non-metropolitan areas earning salary >\$200,000	#	#
Average length of employment of existing FTE personnel employed	#	#
Total Bank EBITDA	\$	\$
Total Bank Operating Costs (excluding interest, tax, depreciation & amortisation costs)	\$	\$
Total Staff Training and Development Costs	\$	\$
Total Value of Annual Donations to Charitable Organisations (excluding sponsorships) (a)	\$0	\$0
Total Value of Annual Donations to Community Sponsorships (b)	\$0	\$0
Total Value of Annual Donations (a) + (b)	\$0	\$0

SECTOR IMPACT ASSESSMENT OF CUSTOMER OWNED BANKING IN AUSTRALIA

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APPENDIX C: KPMG INDUSTRY SURVEY CONTINUED

Bank Location Data	Branch #	as at 30 June 2022	as at 30 June 2021
Number of branches operating		#	#
Location of branches by postcode	1	#	#
	2	#	#
	3	#	#
	4	#	#
	5	#	#
	6	#	#
	7	#	#
	8	#	#
	9		
	10		
ESG Initiatives		as at 30 June 2022	as at 30 June 2021
Estimated Tonnes of Greenhouse Gas Emissions associated with your direct operations		#	#
Describe any ESG Initiatives being undertaken by the Bank in the past 2 years			
Community support impacts		as at 30 June 2022	as at 30 June 2021
Estimated value of paid volunteering activities supported by the bank		\$	\$
Describe any Community Support Initiatives undertaken by the Bank in the past 2 years			

KPMG contacts:

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