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‘Which bank?’ Competition and community service obligations in the retail banking sector

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In all the discussion about the impact of privatisation and marketisation on public service delivery, one area that is often overlooked is banking services. Yet banking is an interesting case because it offers an example of the state deliberately stimulating competition through a government-owned business enterprise (GBE). Acknowledging this potential role of the state and GBEs is important because, as Murray Goot argues, ‘for a generation, much of the free market Right as well as the interventionist Left seem to have forgotten the history of state intervention not as a way of stifling competition but as a way of encouraging it’ (2010, p. 83). Accordingly, in the first section of the chapter we provide an overview of how the Fisher Labor government (1910–13) aimed to increase competition in banking by establishing the Commonwealth Bank of Australia (CBA). This federal government bank was set up to compete with both the privately owned and state government-owned banks. We also highlight how, during the establishment phase of the bank, a discourse of ‘community service’ ran alongside a ‘competition’ discourse (Goot 2010, p. 78) and explore how prior to privatisation, the Commonwealth Bank was tasked with twin goals of increasing com-

petition in the sector while meeting community service obligations. In other words, throughout this period, the Commonwealth Bank was operating under two institutional logics: a market logic and a community logic. Under a market logic, the sources of legitimacy and authority are the share price and shareholder activity and the norm is one of self-interest (Thornton, Ocasio & Lounsbury 2012, p. 69). Under a community logic, legitimacy and authority are derived from belief in trust and reciprocity and a commitment to community, and values and norms are based on group membership (Thornton et al. 2012, p. 70). This chapter shows how, over time, the community logic came to be overshadowed by the market logic in the CBA.

In the Australian context, state intervention in banking has always been cast as a way to ‘increase competition’; however, just what this means has invariably reflected political, historical and economic reasoning (cf. Rosamond 2002). By the 1980s and 1990s, in line with broader neoliberal discourse, it was thought that competition was best achieved by exposing domestic markets to outside pressure and introducing overseas private sector banks into the sector. One consequence of this was the privatisation of a raft of government-owned banks, including the Commonwealth Bank. We show how opening up the banking market and privatising government-owned banks, in particular the Commonwealth Bank, has produced mixed outcomes for retail bank consumers and has allowed the large for-profit banks to argue that market and community logics are not compatible.

Most recently, the pervasiveness of this discourse about the incompatibility of market and community logics has seen the former federal Labor government (2007–13) turn to the smaller, not-for-profit financial mutuals to deliver on community service obligations for the sector, rather than stipulating that the large for-profit banks incorporate such provisions into their practice. Mutual financial organisations derive their legitimacy and authority from an associational logic, much like the community logic Thornton and colleagues (2012) identify, in that their authority and legitimacy come from belief in sharing and reciprocity, embedded in a norm of the equality of all group members.

The promotion of mutuals as hybrid banks, run on both market and associational logics, mirrors international trends in public sector reform with governments increasingly turning to the not-for-profit sector to provide services and increase consumer choice (Kelly 2007).
What is different about moves by the former federal Labor government to champion financial mutuals is that they were seeking to increase competition at arm’s length, with no direct involvement of the government in the workings of those institutions. Rather they appear to be using the notion of financial mutuals and mutuality as a discursive foil to the dominance of the sector by the big four banks.

Competition, community service obligations and a Commonwealth-owned bank

Love (1984, p. 42) reports that in 19th-century Australia there was a ‘deeply ingrained suspicion of the probity of bankers, and a conviction that private banking, by its very nature, was not serving the interests of the community as a whole’. These sentiments were reinforced by the bank crash of 1893, which created the general belief that ‘the existing banks were avaricious and incompetent’ (Gollan 1968, p. 18). On one hand, there was a general view that the private banks had saved themselves at the expense of their customers by destroying their deposits (Butlin 1961), while, on the other, the various state government-owned banks were seen to have acted with propriety and, as a result, their customers were less affected by the crash (Singh 1991). Against this backdrop the Labor movement began to campaign for a federal government-owned bank that could wrest control of the financial system from private bankers. A national, government-owned bank was seen as a ‘weapon with which Labor could attack the entrenched positions of capital’ (Gollan 1968, p. 93) and where the public’s deposits would be safe from ‘the perils of dividend-hungry shareholders and speculating, reckless directors’ (Love 1984, p. 44).

When the Australian colonies became a Federation in 1901, the newly formed Australian Labor Party began the process of developing national policies on a range of issues on which the Commonwealth Constitution gave the federal parliament power to act (Love 1984, p. 48). Section 51 (xiii) specified ‘Banking, other than State banking; also State banking extending beyond the limits of the State concerned, the incorporation of banks, and the issue of paper money’. The Labor Party accepted this opportunity with alacrity because it offered a chance to shape the country’s monetary system along lines similar to those advo-
cated for state government-owned banks but on a national scale (Love 1984, p. 48). Accordingly, the focus of debate shifted in the Labor Party from the state to the federal arena with support for government banking so strong that when a proposal to establish a Commonwealth Bank came before the 1902 Federal Labor Conference it was approved with very little discussion (Love, 1984).

In 1911 a ‘People’s Bank’ was born, one which would, in the words of the Prime Minister, Andrew Fisher, ‘be a bank belonging to the people, and directly managed by the people’s own agents’ (Fisher 1911, cited in Singh 1991, p. 120). Fisher went on to explain: ‘this is a business concern pure and simple; it is not a matter of idealism’. Here Fisher is alluding to the fact that, from the outset, a key reason for establishing the Commonwealth Bank was to engender competition in banking. Quiggin (1995, p. 31) argues that Australia was unique in the extent to which GBEs operated alongside private firms, in industries such as banking, airlines, insurance and telecommunications. In banking, as Goot (2010, p. 82) has observed, the idea of the state as a competitor was pushed one step further with the idea that it would not only compete against private sector banks but other state government-owned banks. In the first years of its existence the Commonwealth Bank did not compete aggressively with the other banks, but its presence did have an impact on the state-owned banks. This was in large part because when the Commonwealth Bank began full operations in 1913 it took up exclusive right to use post offices as branches, closing off this option to the state government-owned banks that had been using the post offices as deposit agencies (McCarthy 2002).

The Second World War provided the Commonwealth Bank with the opportunity to increase its competitive position vis-à-vis the private banks. During the War, the Commonwealth Bank was given the authority of a central bank, and thereby equipped with the power to set interest rates (Merrett 2006, p. 57). The role of the CBA was further strengthened with passing of the Commonwealth Bank Act (1945) which set a clear directive for the CBA to compete with the other banks (Merrett 1998) and to expand its general banking business (Singh 1991, p. 11). The 1945 Act constituted the bank as a central bank and reflected the postwar Labor policy approach, which used public bodies to stabilise the market system. Not surprisingly, the private banks were opposed to the fact that the Commonwealth would be a competing commercial
bank at the same time that it operated as a central bank. Over time, these two functions were progressively separated within the bank, and their formal separation was legislated in the Banking Act (1959), which established two distinct bodies: the Reserve Bank of Australia and the Commonwealth Banking Corporation (Evatt Research Centre 1988, p. 117).

From its establishment, it was believed that, by competing directly with the private trading banks, the CBA would discourage the other banks from taking unfair advantage of their customers by providing competitive home loans, return strong dividends to the government, and ensure good wages and conditions for employees in the sector. It was the case that, until the early 1980s, home loan rates of the CBA were significantly below those of most of its competitors, which led to it becoming the largest lender for housing in Australia (Howard 1991, p. 18). It also lent large sums to local and semi-government bodies for essential services, including roads, electricity and sewerage (Evatt Research Centre 1988, p. 22). Competing in the same segment of the market as the private banks but with the benefit of economies of scale and the backing of the federal government enabled the CBA to generate significant profits and pay reasonable dividends to the government. For example, in 1987, in addition to paying taxes of $1.316 million, the Commonwealth Bank transferred $61.4 million to government revenue (Evatt Research Centre 1988, p. 138). Competition in the financial services labour market also led to improved wages and working conditions across the sector. With the CBA offering more attractive salaries, the private banks had to follow suit in order to attract highly skilled workers.

The CBA also generated business banking and increased its competitive position by means of its Development Bank arm, founded in 1959. The Commonwealth Development Bank lent to small and rural businesses which had potential but, because of a lack of security and/or personal contacts, were either ignored by the private banks or could not get access to reasonable funding (Jones 2002). The Commonwealth Bank also played a crucial role in the development of the Australian manufacturing industry by underwriting the original loans for both BHP and General Motors Holden (Evatt Research Centre 1988, p. 22).

At the same time that the Commonwealth Bank Act (1945) set out a clear aim for the CBA to compete with other banks, it also legislated
for the bank to act in the national interest. As set out in Clause 8 of the Act:

It shall be the duty of the Commonwealth Bank, within the limits of its powers, to pursue a money and banking policy directed to the greatest advantage of the people of Australia, and to exercise its power under this Act and the Banking Act, 1945 in such a manner as, in the opinion of the Bank, will best contribute to: a) stability of the currency of Australia, b) the maintenance of full employment and c) the economic prosperity and welfare of the people of Australia (cited in Evatt Research Centre 1988, p. 22).

This clause made manifest the community service obligations of the CBA, which had been loosely framed with its establishment in 1911. As Martin (1996, p. 111) explains:

A community service obligation arises when a government specifically requires a public enterprise to carry out activities relating to outputs or inputs which it would not elect to do on a commercial basis, and which the government does not require other businesses in the public or private sector to undertake, or which it would only do commercially at higher prices.

The CBA’s community service obligations involved lending to charities and non-profit making bodies, and to local government as well as semi-government authorities, occasionally at concessional rates, as well as ensuring service delivery to people with disabilities, low-income earners, people from non-English-speaking background and Aboriginal people (Howard 1991, p. 18). Having a hybrid bank, which operated under both market and community logics, in the sector had consequences not only for the other banks in terms of competition, but also for customers in terms of equitable access to financial services.

We can see how both a market logic and a community logic (Thornton et al. 2012) influenced banking practice when we examine the CBA’s prior commitment to the provision of an extensive branch network. The Evatt Research Centre points out that if a bank branch was to be found somewhere in the outback in the 1980s, it was most likely to be a branch of the CBA (1988, p. 136). Prior to privatisation,
the CBA had the biggest branch network in the industry, serving approximately 27 percent of the banking industry’s retail customers (ACA 1990). The cost of providing such an extensive bank branch network was implied by David Anderson, Secretary of the CBA:

It would be difficult I think for a privately owned bank to perhaps justify the total spread of branches. If we get to the stage of being totally driven by (the) bottom line, then people are going to have less of a service than they might be enjoying at the moment (cited in Howard 1991, p. 18).

As a result of strict regulatory controls, Australian banks could not differentiate the products they offered, therefore, market advantage was achieved by offering customer service through an extensive branch network, which allowed the CBA to attract more and more customers (Taylor & Hirst 1983, p. 267). Under its charter as a government-owned bank, the CBA’s obligation to cross-subsidise the less profitable branches in the rural areas left its competitors little choice but to follow suit and extend their branch networks.

In line with the community logic that informed much of the CBA’s practice, this extensive branch network not only helped to ensure access to banking services for Australians living in rural and remote communities, it also helped to ameliorate the consequences of financial illiteracy. Financial literacy is the ability to make informed judgements and to make effective decisions regarding the use and management of money (Noctor, Stoney & Stradling 1992). In the 1980s, levels of financial literacy in Australia were low. One survey of 1500 Australian adults revealed that 27 percent could not fill out deposit slips correctly, 39 percent failed in writing out cheques and 45 percent were unable to keep records of their financial transactions (Wickert 1989, p. 53). However, at that time the limited number of bank products and an extensive bank branch network meant that the level of financial literacy needed to participate in the financial industry was also low. Most of the financial transactions happened face-to-face, over the counter in branches, and bank customer service officers were regarded as trusted advisors who ensured that customers were not disadvantaged (Singh 1989).

The existence of a large, public bank that operated under both market and community logics impacted the sector as a whole. Prior to its
privatisation, the Commonwealth Bank shaped the nature of the Australian banking industry by providing greater security and competitive home loans to consumers, returning strong dividends to the Commonwealth, ensuring fair employment conditions for workers in the sector, lending to small and rural businesses and offering an extensive branch network. The bank was a product of government legislation that ‘reflected a deeply entrenched view of the past that there is a valuable contribution to be made to the economy by the public sector’ (Evatt Research Centre 1988, p. 114). As Goot (2010) has argued, it is possible then for a public sector provider to both drive competition in the sector, not just in terms of price but also to drive higher levels of service delivery. The privatisation of the bank and deregulation of the industry resulted in significant shifts in the banks’ relationships with their customers. The consequences of these shifts are outlined in the following section.

**Competition, community service obligations and privatisation**

In the previous section we outlined the role played by the CBA in ensuring competition in the banking sector, access to affordable banking products and engagement in a range of community service obligations. In this section of the chapter we show how privatisation of the Commonwealth Bank in 1991 has led to mixed outcomes in terms of competition in the retail banking sector. In addition, while rates of financial literacy have remained similar to those prior to privatisation, the number and complexity of financial service products on offer to consumers mean that higher levels of financial literacy are needed if consumers are to make prudent and informed financial decisions.

Prior to its election in March 1983, Labor had condemned the proposals for financial deregulation put forward by the Campbell Committee (1981), which the Fraser Coalition government had commissioned to inquire into the financial system in 1979. After the election, Labor’s position on financial deregulation was rapidly reversed and, by 1986, policies of deregulation more radical than those the Campbell Committee proposed had been adopted (Quiggin 2001). All this change was framed within a discourse of increasing competition in financial services. As Schaefer and colleagues (2011) have noted, the idea of
competition has, under neoliberal regimes, been a significant driver of efforts to deregulate and privatise. The Australian dollar exchange rate was floated in December 1983 and exchange controls were lifted (Hand 2001, p. 14). In 1984, foreign-owned banks were allowed to operate in all areas of the industry, and as a result 16 licences were issued for foreign banks, although not all were taken up. According to Kitay (2003, p. 136), it was particularly notable that those foreign banks which attempted to establish a retail presence made little impression on the market at that time, and most restricted their activities primarily to merchant banking activities. Around the same time a number of domestic non-banking financial institutions such as building societies were granted banking licences. While extensive financial deregulation was introduced in Australia between 1981 and 1985, at that time privatisation of the Commonwealth Bank and the state government-owned banks was not seriously advocated (Quiggin 1995, p. 31). So while many argue that deregulation and privatisation invariably go hand-in-hand, the case of banking shows that deregulation can occur without privatisation of GBEs. This is important because, as Quiggin (1995, p. 32) argues, it challenges the notion that privatisation is necessary to promote reform of a sector and the association between reform through regulation and privatisation is ‘primarily one of political compatibility rather than of logical implication’.

The privatisation of a number of government-owned banks, including the federal government-owned Commonwealth Bank began in the 1990s. The Commonwealth Banks Restructuring Act of 1990 converted the Commonwealth Bank from a statutory authority to a public company with conventional share capital and part-government ownership. On 17 April 1991, the organisation became a public company with a share capital governed by the Corporations Law but subject to certain overriding provisions of the Commonwealth Banks Act 1959. The Commonwealth Bank was fully privatised in three stages between 1991 and July 1996. Quiggin (2001) notes that, at each stage in the privatisation of the Commonwealth Bank, the government made solemn assurances that this sale would be the last. However, these apparently binding commitments to continue major public ownership were made and subsequently broken. The need to rescue the State Bank of Victoria was eventually used to force through the full privatisation of the Commonwealth Bank (Quiggin 2001).
While all this change was underpinned by a mantra of ‘increased competition’ and better choice for banking consumers, the outcomes of opening up the market to foreign competition and privatisation of government-owned banks have been mixed. This is in part because at the same time that bank licences were granted to building societies and government-owned banks were privatised, there was a series of retail bank mergers which resulted in the domination of the industry by the big four banks: the Commonwealth, ANZ, NAB and Westpac. As a result, Australia now has one of the most concentrated retail banking markets in the world, with only 12 domestic banks, nine foreign subsidiaries and 35 foreign branch banks (not all of which offer retail banking services) (APRA 2010).

Further consolidation of the industry is not possible because of the ‘four pillars policy’. In 1990 the then Labor Treasurer, Paul Keating, introduced the ‘six pillars policy’ which precluded mergers between the four major banks and the two largest insurers (AMP and National Mutual) (Wu 2008). In 1997 the Wallis Inquiry into banking argued for the removal of ‘six pillars policy’ and in response the then Coalition Treasurer, Peter Costello, removed the ban on mergers between insurance companies but maintained a ban on mergers between the four banks. By April 1997, the ‘six pillars policy’ had become a ‘four pillars policy’, which removed the previous prohibition of foreign takeovers of Australian banks but still prevented mergers among the four biggest banks (Wu 2008).

While all these changes were intended to increase choice for consumers, this did not occur across all product segments. In the home mortgage area, consumer choice increased dramatically, with the Australian Banking Association (ABA) reporting that ‘prior to deregulation in 1995 customers had the choice of only 26 different home mortgage products’ and just four years later the market was offering nearly 2,500 varieties of mortgages’ (Local Government Banking and Financial Services Taskforce 1999, p. 11). Conversely, in the areas of retail transaction accounts and small business banking competition remained very weak (Connolly & Hajaj 2001, p. 7). In these product segments there is very little price or product differentiation across the banks, particularly the big four banks. Kitay and Rimmer (1997, p. 105) found that bank managers did not consider competing on price or product innovation to be a viable strategy.
Innovations in service delivery afforded by technological innovation offered the banks a significant way to increase profits through the closure of branches and staff redundancies. The shift away from ‘bricks and mortar’ service to service via a machine or in cyberspace has lead to the widespread closure of bank branches across Australia. Between 1980 and 2011, the number of bank branches fell from 11,760 to 5,588 (APRA 2011). In 1998, Anthony Aveling, the then Chief Executive Officer (CEO) of the ABA, outlined the process involved in decisions about branch closures to a House of Representatives Inquiry into regional banking services (1999), in the following terms:

An individual bank will review the trends in an area. They will look at what has been happening to their business over a long period of time and they will make projections. If the conclusion that an individual bank comes to is that the bank branch is no longer profitable, or will not be profitable in the near future, then work is done on what are the alternative services that may be provided in that particular location (Standing Committee on Financial Institutions and Public Administration 1998).

While the ABA claimed that only unprofitable banks were closed, the House of Representatives Inquiry (1999, p. 21) found that it was not only the unprofitable branches that had been closed, concluding that: ‘it is neither fair nor constructive to perpetuate this impression which in some ways could be seen to put the responsibility for a bank closing on the township rather than on the banks.’ The inquiry was correct to argue that communities themselves should not bear responsibility for branch closures, yet, it is the case that closures were spatially uneven, focusing on remote settlements and deprived urban areas (Connolly & Hajaj 2001) and that this had negative consequences for those living there because they lost access to fair and safe financial products from mainstream suppliers (Beal & Ralston 1997). At the same time, financial service consumers faced an increasing array of financial service products with less access to face-to-face delivery channels through which these products could be explained. The need for financially literate consumers has also been exacerbated by the rise of ‘self-service’ options and the extended marketing of financial service products. Shifting attitudes towards money from an old-economy focus on wages, cash and
short-term investments towards a new-economy focus on wealth and assets, savings and investments for the longer term has also increased the need for more financially literate consumers (Finlayson 2009, p. 411).

It is perhaps not surprising, then, that in the lead-up to the 2001 federal election, banking polled as the third most important issue in voters’ minds. The Financial Services Union (FSU), the Australian Consumers Association (ACA), the Financial Service Centre, the Australian Pensioners and Superannuants’ Federation (APSF) and the Consumer Credit Legal Centre were actively campaigning for the government to adopt a social charter for the banking industry. The social charter included minimum service standards for customers, guaranteed access to banking facilities for all Australians and an ongoing monitoring of fees and charges (Workers Online 2000). In response to this discontent and campaigning, the ABA commissioned a review of its Banking Code of Practice. The review recommended sweeping changes to the Code and took both banking industry and consumer groups by surprise in the scope of the issues raised by the independent consultant, Mr Richard Viney (Nixon 2001).

Three of the four major retail banks (notably not the CBA) responded by introducing a degree of self-regulation. This self-regulation has led to some benefits for low-income customers. In July 2001 Westpac launched its Customer Service Charter which, according to the then Westpac Group Executive, Ann Sherry, ‘provides the community with information on the way in which Westpac plans to deliver a better outcome for its customers’ (Bland 2001). The latest version of this document was produced in August 2011 and is entitled ‘Principles for doing business’. The ANZ launched its Customer Charter in September of 2001 and it is still prominent on their website. The two-page document sets out clear benchmarks for the provision of service to customers, including commitments on access to services, personal information and an improved complaint resolution process. The NAB held a consultation forum chaired by social justice campaigner Reverend Tim Costello, in May 2001 and this led to the introduction of a basic (fee free) bank account for low-income customers (Bland 2001).

Privatisation of the government-owned banks has failed to deliver on its promise of increasing competition, with Australia continuing to have a highly concentrated banking market. In some segments, finan-
Financial services consumers have very little choice; in other areas, product choice has expanded greatly, increasing the need for higher levels of financial literacy. Widespread branch closures have left many communities without local financial services. Change has been fast-paced in this sector and has not benefited all financial consumers. As the impact of the loss of government-owned state banks became evident, a range of government inquiries were called into the retail banking sector. The most wide-ranging of these, the Wallis Inquiry, concluded that it is not the role of the banks to meet community service obligations because cross-subsidisation of banking services would counteract efficiency in a competitive market (Wallis 1997, p. 196). The ABA argued to the Wallis Inquiry that it was the duty of the government or smaller deposit-taking institutions to ensure equitable access to financial services in Australia (Griffith 2000, p. 4). This final section of the chapter shows how this argument has impacted on those smaller deposit-taking institutions, with some of those organisations embracing calls to be the ‘fifth pillar’ in banking.

Competition, community service obligations and mutuals

As a result of the Global Financial Crisis (GFC), the Australian retail banking market has undergone a structural shift. As Johnston (2009) reports, the big four banks – Westpac, ANZ, NAB and CBA – have used their position to acquire weaker rivals and take over banking business from smaller banks, non-bank lenders and mortgage brokers. In 2009, the big four banks were writing more than 90 percent of the nation’s new mortgages, compared with approximately 60 percent before the GFC (Johnston 2009, p. 7). In response to further consolidation of the market following the acquisition of BankWest by the Commonwealth Bank in 2009, the architect of much of Australia’s banking reform and the driver of privatisation of the Commonwealth Bank, Paul Keating, reiterated the need for the federal government to retain the ‘four pillars policy’ to ensure adequate competition in the sector.

In response to the increasing consolidation of the sector, in 2010 Wayne Swan, Treasurer in the Gillard Labor government, announced a number of reforms aimed at increasing competition in the sector. The central plank of these reforms was the creation of a fifth banking pil-
lar, which he envisaged as the combined power of the mutual sector. Financial mutuals are not-for-profit organisations that are owned by and for their members. Mutualism can be described as a sort of radical communitarianism or collectivism, in which individuals are tied to others through a variety of economic and social links (Parker, Fournier & Reedy 2007, p. 186). A mutual organisation, then, is owned by the people that do business with it. All members of the mutual have equal voting rights, with one vote per member, and any profits are reinvested back into the mutual for the benefit of members. As noted above, mutuals operate under an associational logic, which as Cato (2013) argues is based on notions of reciprocity and mutualism that long predate the market-based economy that is so often presented as the (ahistorical) norm.

In Australia, credit unions are the most common form of financial mutual. The early Australian credit union movement drew on both Raiffeisen philosophy, which influenced the movement in Europe, and Catholic teaching, which underpinned the development of credit unions in Canada and the United States. In the 1850s in Europe, Friedrich Wilhelm Raiffeisen, a German burgomaster, adapted the Schulze-Delitzch concept of self-help people’s banks to establish an independent farmer-based credit association (Lewis 1996, p. xxi). The idea of mutual self-help is central to the Raiffeisen notion of ‘limitless liability, achievable through a bond of association, whereby a person’s trusted standing in the community and the knowledge co-operators had of each other acted as security in seeking loans from a community pool of funds’ (Lewis 1996, p. xxi). Across the Atlantic, in Canada, Alphonse Desjardins, a parliamentary reporter inspired by the Papal Encyclical *Rerum novarum* (1891), developed his own philosophy for credit unions. This philosophy shared many of the principles of the European movement, including the notion of limitless liability, open membership, education in cooperation and economic and financial responsibility. Perhaps in keeping with a particular pragmatic Australian identity, the motivation of the early credit union pioneers in Australia has been characterised as simply a way to make personal credit available to ordinary working people (Cutcher & Kerr 2006). During this time, the personal credit market was dominated by loan sharks and hire-purchase finance companies, which often charged interest rates in excess of 80 percent (Cutcher & Kerr 2006). In a bid to regulate
this burgeoning market, the NSW government enacted the *NSW Small Loans Facilities Act* in 1941. Credit unions were formed around bonds of association that related to working for the same employer, involvement in a social group or residing in a particular geographical area.

A small number of mutual building societies continue to operate in Australia today. Originally, the benefits of property ownership and the difficulty in obtaining housing finance from banks or private mortgagees saw the concept of building societies transplanted from the United Kingdom and take seed in Australia. Malcolm Hill (1959, p. 10) reports that, ‘while there is little information on the early history of building societies in Australia, it seems that the first societies were formed in the 1840s’. However, it was in the 1880s when Australian building societies experienced their first expansion (Hill 1959, p. 4). The second period of growth for building societies came during the period of prosperity that followed the Second World War during the 1950s and 1960s (Lyons 1988, p. 388).

In Australia, up until the 1980s, mutuals were subject to their own legislative requirements and were afforded tax incentives. Not being subject to the same strict reporting requirements as the large mainstream banks and the benefits from the reduced taxes helped sustain a wide range of credit unions and mutual building societies who serviced discrete memberships (Cutcher & Mason 2013). However, a range of structural changes, most notably, demutualisation of many consumer and producer co-operatives, privatisation of the public sector, and deregulation of the financial services sector, made it increasingly difficult for smaller credit unions to survive. The result was a raft of amalgamations which saw credit union numbers fall from 549 in 1983 (Lewis 2001, p. 4) to fewer than 90 today. In 2014, the Customer Owned Banking Association, the peak industry body for financial mutuals, represented 77 credit unions, seven building societies, 11 mutual banks and 13 friendly societies.

Treasurer Swan’s reforms sought to improve the mutual sector’s ability to compete with the major banks. He instructed the Australian Prudential Regulatory Authority (APRA) to fast-track approval of more than 20 mutuals using the term ‘bank’ if they apply (at the time of writing, 11 credit unions had moved to calling themselves mutual banks). Further, mutuals were to be able to display a new, official ‘government protected deposits’ symbol that confirms customer savings are pro-
tected in the same way as bank deposits, and Treasury was instructed to help mutuals raise cheaper funding (Gluyas 2010). Not surprisingly, mutuals welcomed the Treasurer's endorsement. However, many commentators are doubtful that the mutual sector has the capacity to be considered a viable fifth competitor in the sector. Most of these concerns relate to insufficient capital, lack of scale and the capacity of a highly diverse grouping of relatively small institutions to act in concert and in united opposition to four major banking corporations (Johyn 2010; Oldfield 2012).

Nevertheless, the persistence of financial mutuals remind us that it is possible to combine market and associational logics in hybrid banking organisations that strike a balance between making profits and meeting community service obligations. One example is Traditional Credit Union (TCU), Australia's only Aboriginal-owned deposit-taking institution, which has been involved in service delivery to Indigenous people living in remote communities across the Northern Territory. With a head office in Darwin, it provides banking services in local languages delivered by Indigenous staff in 11 remote Aboriginal communities. TCU reinvests any surpluses they generate back into the credit union and, in particular, to the education and training of their Indigenous staff. Their approach to employing Indigenous people, delivering financial literacy programs and crafting locally responsive banking services has seen them win a number of national awards.

As noted above, following the GFC, the Australian retail banking market has become even more consolidated. At the same time that there are fewer suppliers of banking products, the range and complexity of those products has increased and this has created challenges for the significant number of financial consumers with low financial literacy. In March 2011, the Gillard Labor government launched the National Financial Literacy Strategy, which aimed to provide a set of ‘initiatives to improve the financial literacy of all Australians and enhance their financial wellbeing’ and transferred responsibility for delivering on the strategy to the Australian Securities and Investments Commission (ASIC 2011, p. 1). The strategy acknowledges that consumers now have greater responsibility for their financial wellbeing but have been essentially left alone to gain the capability to make the right decisions on financial matters. ASIC’s key development in this area has been the construction of a new website, Money Smart, which aims ‘to engage
people and help consumers and investors make financial decisions that improve their lives, by providing information, tools, guidance and motivation’ (ASIC 2011, p. 7). The Appendix to ASIC’s strategy report sets out the financial literacy priorities and lists goals they wish to achieve against a somewhat vague timeline (short-term, medium, ongoing) in partnership with schools, the Vocational Education and Training sector, government departments and agencies and unions. Nowhere is there mention of working in partnership with financial service institutions or peak industry bodies such as the ABA. Bringing banks and their representatives back in as part of the solution is important because, as Erturk and colleagues (2007, p. 571) argue, financial literacy programs need to be accompanied by a ‘re-think of the design of complex financial products that reflect the kinds of risk-return preferences and innate inertia of many financial consumers’. Rather than looking towards not-for-profit charities and non-government agencies to meet the challenge of educating Australians in financial literacy, the government should have the banks as a central plank of their strategy, making them responsible not only for the delivery of educational programs, but also for the provision of consumer-friendly and affordable products and services.

By championing mutuals with their associational logic as a fifth pillar, there is a danger that they alone will be left with responsibility for meeting the community service obligations of the industry as a whole. There is no doubt that mutuals have played, and should continue to play, a key role in the financial sector. The associational logic which shapes their culture, practice and structure means that they are, in many cases, best placed to meet the needs of bank consumers who might otherwise find themselves excluded from access to necessary financial services. However, even when combined, the mutual sector cannot match the reach of the four major banks. The majority of Australians continue to bank with one of the four majors. Therefore, to ensure equitable access to affordable and appropriate financial services and products, governments need to regulate the sector so that all banking organisations operate as hybrids, combining both market and community logics, so that they derive their legitimacy from both their profit-making activities and their community service initiatives and responsibilities.
Conclusion

One hundred years ago, the then Labor government established a bank which would, in the words of Clyde Cameron, a member of the Whitlam Labor government, ‘provide genuine competition to private companies which would otherwise co-operate with each other to defraud the public’ (cited in Goot 2010, p. 80). The Labor government was keen to increase competition in the banking industry, this time by encouraging consumers to shift their banking business to the mutual sector. It is unclear what the conservative government’s position will be. However, if they accept that the government’s role in the sector is to ensure the ready availability of fair and reasonably priced financial services, then they should look for ways to ensure that banking organisations operate under both market and community logics. Creating these hybrid organisations will require the government to regulate for community service obligations in the same way that they were legislated for the Commonwealth Bank when it was established. Mutuals, rather than being a fifth pillar for the sector, could work as models of the kind of hybrid organisations needed to ensure the financial inclusion of all Australians.

This chapter has demonstrated that over time, the structure and operation of financial services in Australia have been the outcome of the interplay of a market logic, a community logic and an associational logic. This chapter has sought to show that financial service consumers are best served when a community logic operates alongside a market logic in the same organisations. Both the case of the government-owned Commonwealth Bank and the case of financial mutuals shows that it is possible for these two logics to co-exist and that bringing them together is a way to ensure equitable access to financial knowledge products and services.

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