

Chair's 2017/18 AGM Address

Credit Union SA

Credit Union SA's performance in the 2017/18 financial year has remained strong and consistent in a highly competitive market with the overlay of macro prudential interventions in the housing market by the regulator.

Over the last couple of years we have increased our focus, and accordingly our budget allocation, for work on strategic initiatives to support the Credit Union into the future. The Board agree that this focus will continue while maintaining an equally strong focus on the prudent risk and financial management of the organisation.

Focus on Financial Institutions

There has been significant focus in the community on the financial sector over the past 12 months, with the Productivity Commission's Inquiry into Competition in the Australian Financial System commencing in July 2017 and the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry established in December 2017.

The Productivity Commission's report was released to the public in August 2018 and highlighted the inequity between the larger financial institutions and smaller competitors, particularly in relation to regulatory requirements.

There has been a lot of coverage of the evidence given by the major banks and large financial services organisations to the Royal Commission. There has been a great deal spoken of the poor behaviour of these institutions in relation to vulnerable customers.

In his interim report Commissioner Hayne has been quite damning in relation to the culture of the larger banks and their focus on profits over customers' needs.

These inquiries are very necessary and have brought to attention a culture of 'deny, delay, defend' in these organisations.

This has resulted in an erosion of trust in these organisations and large institutions more generally which will take some time to rebuild. It is the Commissioner's view that the industry has failed to meet legal obligations to customers and wider stakeholders, as well as community expectations more generally, where the pursuit of profit has unduly interfered with the fair treatment of customers.

A key outtake is that employees will treat as important what they believe the entity values – this is a critical element in forming the culture of the entity. We consider that our staff are very clear about what our organisation values – our members.

As a mutual financial institution, Credit Union SA's primary focus is on its members. We do not have the same "profit driver" as the major banks do; we make appropriate profits and use those profits to invest for the benefit of our members.

Also, unlike the major banks, Credit Union SA does not remunerate staff with large bonuses or 'at risk' components which ensures our culture is far removed from those that have been strongly criticised in

both the Productivity Commission's report and the interim report of the Royal Commission. Our culture is not driven by the need to sell products to our members to justify our salaries; we are owned by our members and we must always act in the best interests of our members.

Our purpose, our values and showing our values in action matters to us. Our values include Integrity, Determination, Vitality, Belonging and Healthy. We overlay these values in all of our decision making.

Of course, we believe that we can always improve the way that we do things and we are firm believers that there are lessons to be learnt from this focus on our industry. The outcomes from both of these inquiries have been considered by the Board and management with any opportunities to further enhance the governance of our organisation being identified and implemented.

Our Community Focus

In 2018 the Credit Union became the Education Partner of the SALA Festival and we will continue that partnership in 2019, as another plank in our commitment to the education community within South Australia. This sponsorship also builds on our commitment to collaborate and connect with all South Australians by enabling us to engage with a broader range of community members.

We continued our involvement in the Public Education Awards, becoming an event partner, and the Credit Union's innovative School Community Rewards program continued to help raise much needed funds within participating schools simply through parents and grandparents holding one or more products with Credit Union SA. Sharing our values and providing value to school communities is a wonderful aspect of our activities.

Our long-standing support of St John's Youth Services continued including, as a highlight, a large fundraising effort for their 'Drop your Boss' campaign.

And of course, after 23 years of sponsoring a much loved South Australian iconic community event, the 2018 Credit Union Christmas Pageant was the last year of our involvement. We are very excited to see the baton passed on to another South Australian member-based organisation who will carry on the tradition.

Regulatory Environment

We are expecting the regulatory environment to change significantly over the coming 12 months following the Royal Commission outcomes.

The Credit Union is supportive of regulatory change to ensure customers are protected, however as a smaller financial institution there is always the challenge of the higher cost of compliance that we bear.

We consider that any regulatory change should be proportionate and address where there have been failings in the past and not a one size fits all approach. As always we will need to ensure that we are efficient in our work and the management of compliance as a business cost.

The Banking Executive Accountability Regime, otherwise known as BEAR, was introduced in early 2018 to establish clear and heightened expectations of accountability for authorised deposit taking institutions, their directors and senior executives, and drive strong risk culture throughout a financial institution.

The Credit Union will be required to implement BEAR by 1 July 2019 and is well positioned to do so, with a strong focus on good governance and promoting a strong risk culture throughout the organisation from the Board through to all layers of the organisation.

South Australian Environment

As you are all aware, South Australia has its challenges;

- the end of local car assembly
- reduced activity in the mining sector,
- slow population growth coupled with an ageing population,
- the potential impact of the deceleration in the Chinese economy flowing through to international student and tourist numbers as well as related export earnings.

We also have many positives with household, business and government spending during the 2017/18 financial year estimated to have increased by approximately 3% and being forecast to continue to grow.

South Australia's employment rate is improving, with public investment in transport, health and energy infrastructure, as well as longer term projects such as defence projects.

House price growth in South Australia has remained moderate, despite difficult economic conditions, and is expected to remain moderate over the next two to three years as opposed to the fluctuations being experienced in the eastern seaboard states.

Owner-occupier and investor activity within the South Australian housing market was down on previous years during 2017/18.

Our Strategic Focus

Our goal is 'digital at the core with a distribution network that provides human touch'. To achieve this goal, the Credit Union has four key strategic focus areas being:

- Grow membership and market share
- Become digital
- Strengthen the organisation; and
- Leverage our mutual points of difference.

These four focus areas provide the Board and management with "a road-map" for the Credit Union to continue to grow and serve its members. Investment to support these strategies will be balanced with investment in the operational requirements of the business. However the Board and management are committed to achieving the strategic objectives.

In closing I would like to take this opportunity to acknowledge the commitment of the Board, CEO, executive management and staff and thank them for continuing to guide the Credit Union through the various challenges presented through the year for the benefit of our members.

Chief Executive Officer's 2017/18 AGM Address

I am pleased to report a profit after tax of \$4.262m, which is in line with the previous year's profit and outperformed the Credit Union's budget.

Over the past few years, the retail banking market has progressively become more competitive, with fierce competition between financial institutions for both deposits and lending.

Credit Union SA's planning and budgeting took into account the competitive market and sluggish South Australian economy, however through prudent financial management and a targeted product range, the Credit Union continued its year-on-year growth across all portfolios and momentum continued in the attraction and retention of new members.

The Credit Union's total assets grew by 5.5% over the year, with loans and advances increasing by 5.3% to \$905m and member deposits continuing their favourable growth trend closing at \$946m, a 5.2% increase from 2016/17.

Together with our prudent financial management, we maintained a strong focus on progressing the Credit Union's strategic and operational objectives throughout the year resulting in the following key highlights:

- Continued strong membership growth with over 3,600 new members joining and total membership finishing slightly under 50,000.
- Of these new members, 54% joined using our online platform – a strong indication that our focus on becoming digital is being well received, and our growth in a key target market, being 15-35 year olds, continued, up 13.5% on the previous year.
- We assisted 726 members with new home loans and 457 members with a new personal and car loan during the year.
- Our First Home Buyer's Grant continued to help our members get a foot on the property ladder, with over \$2million in grants provided to 430 members since its introduction 2 years ago.

Members continued to embrace our digital transformation with the introduction of the National Payments Platform which provides members with the ability to send and receive funds in real time. We saw registrations of PayIDs outperforming our competitors in the first month. Over 6,400 PayIDs have now been registered, with this number expected to grow as more financial institutions transition to the technology and additional functionality is rolled out.

The Credit Union is currently processing 13% of incoming transactions and 55% of outgoing transactions via the NPP.

Over 25,000 members are now registered for e-statements, with 20,000 members opting to receive other communications electronically where possible.

Members have continued to utilise our digital platforms with over 2.8 million log-ons to internet banking (a 31% increase on last year) and our mobile app users remained steady at approximately 20,000.

Our Member Contact Centre helped our members over the phone 163,000 times, by email over 7,500 times and through our evolving webchat function over 800 times.

Continuing our support of the Education Community, our mobile team visited over 810 schools and supported and attended 230 education conferences and events.

The Credit Union's innovative *School Community Rewards* program, which shares profits with participating schools, raised an additional \$66k for schools this year, bringing the total raised to almost \$190k since its inception in 2015. Together with raising much needed funds, the *School Community Rewards* team attended over 80 school events providing school communities with additional sponsorship and onsite product information.

As Carolyn mentioned earlier, our ongoing partnership with St John's Youth Services continued throughout the year. The majority of the Credit Union's support is directed towards St John's 'Next Step' program, which aims to reconnect young homeless people with their families and broader communities.

Momentum continued towards the fulfilment of our strategic initiatives, with a significant number of core projects commencing which will support the strategic focus of the Credit Union into the future.

Although Credit Union SA does not seek ongoing recognition of its products, we recognise that consumers have greater choice and significant resources at their disposal to research the best products that suit their needs, and therefore have engaged in the MOZO Experts Choice Awards over the past two years, as well as Canstar for the first time.

Credit Union SA was awarded 6 MOZO Experts Choice awards from across the spectrum of our product range, and recently we were awarded a 5 Star Canstar rating for our fixed rate personal loan, showing that we really are helping our members do more with their money.

Focus during 2017/18 continued on striving towards the Credit Union's desired culture within the organisation, with cultural survey undertaken in March to measure against the results from the same survey undertaken in 2015 and the pulse survey results from late 2016. We continue to be well positioned and focus on building a constructive culture through our values in action.

Our investment in risk management capabilities continued across the organisation with further enhancements evident in our risk management culture.

With the growth in popularity of online and mobile banking, the number of members visiting branches has steadily declined. The decision was made earlier this year to close the Sefton Plaza branch following a review that identified a significant decrease in branch patronage by members.

As a member-owned organisation, Credit Union SA has an ongoing responsibility to ensure an agile, sustainable operating model is in place which generates the most value to the majority of members, and we sought feedback from members to better understand their banking needs.

Members told us that they were looking for lower fees, good rates, great help, extended hours support and more digital banking services. In response to this feedback, we have implemented extended operating hours in our Member Contact Centre and King William Street branch and will continue to adapt to changing member behaviour, as well as new member expectations.

The outlook for 2018/19 is consistent with prior years with:

- continued record low interest rates and a highly competitive market for lending and deposit products and ongoing product innovation and disruptors
- a state in transition
- a heightened level of scrutiny by regulators flowing from the Royal Commission.

These factors indicate that the 2018/19 period will again be a challenging one for our industry however as we have over the past several years, we acknowledge these challenges whilst continuing our focus on members, the prudent financial management of the Credit Union and the longer term strategy to ensure a strong and successful organisation into the future.

Open Banking will be introduced by the Government in 2019 resulting in financial institutions allowing other organisations access to their customers' data – with the permission of the customer of course. The impact of this remains to be seen, however we can expect that financial institutions will use increasingly sophisticated methods to attract and retain customers using this newly available data.

Another evolving area within financial services is the 'neobank'. These banks are completely digital and designed with great customer service in mind, and are building capability to allow themselves to innovate at a pace previously unseen.

This is obviously a challenge for traditional authorised deposit taking institutions, such as Credit Union SA, to continue the focus on delivering what customers are asking for digitally, but providing a human touch.

Thank you to all of our staff for their continued focus on helping our members 'do more' whilst facing an ever changing environment, the Board of Directors for their guidance and our members for your ongoing support and loyalty in achieving another successful year for Credit Union SA.