

## News & Views

### Property prices higher in most capitals

Average property prices increased in all capital cities bar Perth in the four months to April 2009, data from RP Data-Rismark shows. Average prices increased 3.9 per cent, to \$523,000 in Sydney; declined by 0.8 per cent to \$466,000 in Perth and increased by 4.5 per cent to \$437,000 in Melbourne. In Brisbane prices increased by 1.6 per cent to \$428,000. Prices increased by 1.1 per cent in Canberra, by 5.3 per cent in Darwin and by 0.7 per cent in Adelaide. Measurement of property prices is a contentious topic with alternative measures from the Australian Bureau of Statistics, rival vendor Australian Property Monitors and the various real estate institutes providing a complicated picture of the market.

### Bounce in residential building

Residential building approvals increased for a third month in a row, data from the Australian Bureau of Statistics shows. The building approvals data conforms to separate data on increased home loan approvals and suggests support from the residential construction sector for employment and demand later in the year. Treasury has also forecast robust growth in construction over the next year. However, commercial building approvals declined the ABS said.

### Mortgage Choice favours non-bank lenders

Mortgage Choice will seek to steer more people seeking home loans to non-bank lenders, mainly to secure faster approvals of loan applications. Banks are taking three weeks or so to process many home loan applications lodged through mortgage brokers, which could be due to higher demand and also poor management. It may also reflect a desire to curtail the level of business from brokers and favour their own branch networks.

### Australian Central and Wide Bay secure AOFM backing

Australian Central Credit Union, based in Adelaide, and Wide Bay Australia, based in Bundaberg, will both receive around \$500 million in funding from the Australian Office of Financial Management in the latest round of funding from the government for home loan providers. The AOFM said it plans to announce only one more set of mandates from the second selection round once the transactions announced on Tuesday are completed. The government's financing agency has already invested a little more than \$6 billion in 13 securitisation transactions since the government said the AOFM would help provide liquidity to non-banks and smaller banks in late October 2008. The funding for ACCU and Wide Bay will consume another \$1 billion and leave scope to fund only two more lenders under the current allocation. There is some industry lobbying for an extension of the government support for the home loan sector, though the ballooning level of the Australian government's own debt funding needs since the policy was devised eight months ago indicate the prospects of an extension are slight.

## National Market Ranges

### Home Loans

Standard Variable	4.81 - 6.44%
Basic Variable	4.78 - 6.09%
1 Yr Intro	2.99 - 5.94%
3 Yr Fixed	5.39 - 7.01%
Investment Variable	4.81 - 6.44%

### Deposit Accounts

Cash Mgmt \$10,000	0.01 - 4.25%
Cash Mgmt \$50,000+	0.25 - 4.25%
Online Savings >\$5,000	0.10 - 4.75%
Savings >\$2,000	0.01 - 4.00%

### Investment Accounts

Interest paid at maturity or per annum

\$10,000, 90 Days	1.00 - 4.51%
\$10,000, 1 Year	1.50 - 4.30%
\$10,000, 3 Years	1.75 - 5.40%

SEE PAGE 4 FOR THIS WEEK'S RATE MOVEMENTS

SEE PAGE 3 FOR A FEATURE ON CREDIT CARDS

### Customers more satisfied with big banks

Major banks are closing the gap on regional banks on measures of customer satisfaction. The average satisfaction rating of ANZ, Commonwealth Bank, NAB and Westpac and the regional lenders is now five per cent, having been as high as 17 per cent six years ago. Roy Morgan research publishes data on customer satisfaction with bank each month. Improving satisfaction is occurring as banks quickly increase market share thanks to the credit crunch and subsequent recession.

### ATMs puts ANZ on top

The humble automatic teller machine has played an important part in ANZ's plan to lead its rivals in retail customer satisfaction ratings. The bank has found in its research that ATM access is a key part of the convenience that customers want. Since 2004 ANZ has added 1,000 ATMs to its network. The bank has 2,500 across Australia and will have another 100 in place by September. The bank also claims the highest number of ATMs per customer. The latest Roy Morgan Research survey of retail bank customers shows ANZ leading its big four rivals and St George, with a satisfaction rating of 74.5 per cent. St George is second with 74.3 per cent, followed by Westpac (72.1 per cent), Commonwealth (71.2 per cent) and NAB (67 per cent). ANZ also leads a couple of regional banks, Bankwest and Suncorp, which had been considered customer friendly but have suffered heavy falls in their ratings over the past year.

## Yet another review of superannuation

Superannuation and retirement incomes will be subject to another review. Jeremy Cooper, a deputy chair of ASIC, will conduct the review. Issues for scrutiny include the age at which people may tap into retirement savings. At present this is 55, but the pension age will rise to 67 from 65 over the next decade. Another aim is to secure lower fees from managing superannuation investment that at present average 1.25 per cent. The selection of default funds – usually industry funds – within industrial awards will also be reviewed. Other members of the panel are former CBUS chair Sandy Grant, former Lazard executive Brian Wilson, former AMP executive Greg Evans and Treasury official David Gruen.

## Bendigo cherry picks Customer ATMs

Bendigo and Adelaide Bank will select 500 or so of the existing automatic teller machine fleet of its associate Customers Limited and apply the bank's branding. Customers disclosed the plan in an announcement to the Australian Securities Exchange on Thursday. Customers Ltd will lose the convenience fee that Bendigo and Adelaide customers would otherwise have paid to use the machines but will pick up what the announcement refers to as a "branding fee" and which, according to the announcement, will generate "revenue uplift" for the firm. The bank must want to widen the network of its own brand of ATMs in order to more effectively service the cash needs of its customer base. Customers said Bendigo's branded ATM fleet may double to around 1,150 terminals under the arrangement.

## New Products, Rates & Fees

### Qantas and Woolies launch their alliance

Qantas Frequent Flyer and Woolworths provided details on Monday of the loyalty program alliance they announced back in December 2008. Under the terms of the deal Woolworths customers will be able to link their Everyday Rewards account to the Qantas Frequent Flyer program or link an existing QFF membership. Members will earn one QFF point for every dollar spent above \$30 in one transaction. Customers who link their Everyday Rewards and Qantas Frequent Flyer membership accounts and pay for their purchases with a credit card that earns QFF points will earn points on their card program and on their Everyday Rewards program. The offer will be available to Woolworths Supermarket and Woolworths Liquor customers from June 22 and Big W customers from July 16. The offer will be extended to customers of BWS, Dick Smith and Caltex Woolworths petrol stations in the next few months.

## Interest Rates & The Economy

### RBA leaves rates unchanged

It was no surprise that the Reserve Bank left the official cash rate at 3 per cent this week. This is a 49 year low for Australia and is the second month in a row that the central bank has left rates steady. In his statement accompanying the decision, RBA governor Glenn Stevens noted that conditions offshore were looking more robust and that the turnaround was clearest in China.

He said: "Evidence has continued to emerge that the global economy is stabilising, after a sharp contraction during the December and March quarters. The considerable economic policy stimulus in train in most countries is helping to contain the downturn, and should support an eventual recovery."

Other economic news out this week revealed that unexpected growth in Australian exports has helped prevent Australia from falling into a recession. According to the national account data released by the Australian Bureau of Statistics, the economy grew by 0.4 per cent during the March quarter. This compares to the 0.6 per cent contraction reported for the December quarter.

While the March quarter figures should be something to hearten even the most pessimistic of economists, the reality is that the Australia is not out of the woods yet. While some of the data is suggesting that conditions domestically and offshore are starting to strengthen, the Australian economy is still in a fragile position. Business investment is still falling with a number of large projects shelved over the last few months.

The RBA's current view is that things may still get worse before they start to pick up later in the year. It is expecting consumer spending to be weaker during the rest of the year as consumers continue to tighten their belts. By the end of 2009, the Australian economy is expected to gradually turn the corner.

Its policy making decisions will be strongly influenced by the pace of growth in countries like China and the extent to which unemployment worsens in Australia. Economists are predicting that unemployment will hit 9 per cent by 2010.

In acknowledgement of the uncertainty ahead, Governor Stevens did add in his statement that there was still some scope for more rate cuts if they were required.

"The Board will continue to monitor how economic and financial conditions unfold, and how they impinge on prospects for a sustainable recovery in economic activity," he said.

This means that the possibility of more cuts later in the year is still very much on the cards. The board next meets on July 7, 2009.

## Next Week's Announcements

Tue	9 Jun	Aust NAB Business Confidence / Conditions (May) Aust ANZ Job Advertisements (May)
Wed	10 Jun	Aust MI/WBC Consumer Sentiment (June) Aust Housing Finance (April)
Thu	11 Jun	Aust MI Cons. Inflation / Unemployment Expect. (May) Aust Labour Force (May)

## Industry Analysis

### Turn around for Bankwest

Bank of Western Australia increased its market share of household deposits faster than any other bank during the month of April 2009, with a rise in deposit levels of five per cent. Bankwest's market share had slid steadily over the six months prior, raising questions about its value to the bank's new owner, Commonwealth Bank. Among the big banks ANZ increased its household deposit base by more than \$1.2 billion over April \$57.57 billion, outpacing growth at Commonwealth Bank, Westpac and NAB. On the other hand a couple of banks with market-leading deposit offers in the market, such as AMP and Rabobank, showed only marginal growth in deposits during the month.

Sources: InfoChoice, APRA, Sydney Morning Herald,  
The Australian Financial Review

## Keeping up with changing credit card market demographics

Credit card issuers must understand the changing demographics in their markets if they are going to succeed in a market that will become more competitive, as a wider range of non-financial organisations look for opportunities.

This was the message to delegates at this week's International Consumer Credit Card conference in Sydney.

MasterCard economist Yuwa Hedrick-Wong said Australian patterns of wealth were becoming more polarised - a trend that was likely to be even more pronounced after the country comes out of its present economic downturn.

Hedrick-Wong said: "When you look at single people under 35 years of age, 57 per cent of them are in the lowest 20 per cent measured by household wealth.

"Couples in the 55 to 64 age group are the wealthiest group - 43 per cent of that group are in the top 20 per cent by household wealth.

"The other group that is doing very well is couple with no dependents. Thirty eight per cent of them are in the top 20 per cent by wealth.

"Financial institutions have to do a better job of understanding the life stages of their customers. People over 65 are very different from young singles but product differentiation in areas like the credit card market do not reflect that."

The research director for credit cards at the US consultancy Tower Group, Dennis Moroney said there were other demographics, besides household wealth, that card issuers needed to be aware of.

Moroney said: "We see social networks being an increasing driver of demand for financial products. Understanding those drivers will be an important part of getting your segmentation strategy right."

Given that a lot of social networking now takes place online or via mobile phones, financial institutions needed to be exploring product and service opportunities in those areas.

Moroney said: "As the drivers change providers of alternative networks, such as retailers and telecommunications companies, may be closer to those groups and may challenge the financial services industry."

The chief executive of consultancy Pottinger, Nigel Lake, agreed. Lake said: "Financial institutions have the advantage of access to capital but retailers have the advantage of strong customer relationships.

"The retailers Tesco in the United Kingdom and Carrefour in France are moving beyond offering credit cards. They have started selling personal loans, insurance and deposits."

Hedrick-Wong said: "The next phase of growth will come through innovation. At the end of every recession you get intense innovation activity.

"It is an opportunity for the payments industry to think through what their customers need. For example, there are more mobile phones out there than credit cards."

Moroney said: "Mobile phones will be the credit card of the future. We could put a bar code on a PDA and away we go. You have to be a bit cautious about this; there are security issues with mobile and some of the transit systems that have used mobile have run into problems."

### Regulatory issues the immediate concern

In the short term, however, it is unlikely that card issuers will be promoting new channels or chasing new customers. Moroney said regulatory uncertainty in the US and Australia would force financial institutions to take a cautious approach and focus on retaining their existing customers.

Commonwealth Bank executive general manager of credit cards, Stephen Karpin, agreed with this. He said: "We are not thinking too much about telcos or anyone else entering the market. In this market the focus is on existing customers."

Karpin was critical of elements of the draft of the National Consumer Credit Protection Bill, which the Government released in April. The plan is for the new law, which replaces state consumer credit law, to take effect from the start of next year.

The main obligation for licensees will be to ensure they do not provide or suggest a credit contract to a consumer that is unsuitable for them. The lender must assess that the credit contract will meet the consumer's requirements and that the consumer has capacity to repay the contract.

The rules cover new loans, refinancing, increases in credit limits and also when a licensee recommends that a consumer remain in an existing credit contract.

Karpin said: "The card business model is about getting people in on low credit limits and then moving them up as they can afford it.

"The consumer credit legislation turns that on its head. We think it will hurt us."

GE Money's Skander Malcolm said the legislation was "disproportionate".

"It is aimed at fringe lenders. It will be difficult for retailers," he said.

### Low growth outlook for the card market

Moroney expects that the growth prospects for credit card issuers will be limited for the next couple of years. "Consumers are deleveraging - paying off debt and rebuilding their savings," he said.

"In the US market card issuers report that response rates to direct mail campaigns are down. Voluntary attrition (people closing card accounts or reducing credit limits) is running at eight per cent and involuntary attrition is running at nine per cent."

Hedrick-Wong said growth in household consumption had outstripped growth in income over the past five years, fuelled by debt, both here and in the US. He agreed that growth in consumer demand would be weaker coming out of the downturn as household balance sheets were put back in order.

He said this process would be uneven - a function of the polarisation of household wealth distribution. "Some groups are going to be doing a lot better. Some are not."

## This Week's Rate Movements

### Home Loans - 1 Year Fixed Rates

Institution	Product	Avail	Old Value	New Value	Date of Change	Change Value
ANZ Bank	ANZ Fixed Loan	OO	5.45	5.35	3/06/2009	-0.10
Better Option Home Loans	BetterOption Fixed Rate Home Loan	B	4.69	4.64	2/06/2009	-0.05
Community CPS Australia	Home & Investment Loan	B	5.59	5.79	1/06/2009	0.20
CUA	Fixed Loan	B	4.75	4.89	1/06/2009	0.14
Homeloans Ltd	Easy Saver Fixed	B	5.63	5.83	2/06/2009	0.20
Hunter United Credit Union	1 Year Fixed Rate	B	4.95	5.35	3/06/2009	0.40
NSW Teachers Credit Union	Teachers Fixed Option Loan	B	5.99	5.38	3/06/2009	-0.61
RAMS Home Loans	RAMS Fixed Rate	B	4.99	5.09	1/06/2009	0.10
United Credit Union	Home & Investment Loan	B	5.59	5.79	1/06/2009	0.20

Key: (OO) - Owner Occupied (I) - Investment (B) - Both

### Home Loans - 3 Year Fixed Rates

Institution	Product	Avail	Old Value	New Value	Date of Change	Change Value
Adelaide Bank	Fixed Loan	B	5.99	6.19	3/06/2009	0.20
ANZ Bank	ANZ Fixed Loan	OO	6.19	6.34	3/06/2009	0.15
Bendigo Bank	Fixed	OO	5.99	6.19	3/06/2009	0.20
Better Option Home Loans	BetterOption Fixed Rate Home Loan	B	5.34	5.54	2/06/2009	0.20
Community CPS Australia	Home & Investment Loan	B	5.99	6.19	1/06/2009	0.20
Defcredit	Flexi Choice Fixed 3 years	B	6.29	6.35	1/06/2009	0.06
Greater Building Society	Getaways Fixed Home Loan	B	6.25	6.50	4/06/2009	0.25
Homeloans Ltd	Easy Saver Fixed	B	6.55	6.95	2/06/2009	0.40
HomeSide Lending	Homeside HomePlus	B	5.44	5.99	4/06/2009	0.55
IMB	IMB Fixed Rate Home Loans	B	5.89	5.99	1/06/2009	0.10
NAB	NAB Tailored Home Loan - Fixed Rate	B	5.84	5.99	2/06/2009	0.15
NSW Teachers Credit Union	Teachers Fixed Option Loan	B	5.59	6.18	3/06/2009	0.59
RAMS Home Loans	RAMS Fixed Rate	B	5.79	5.89	1/06/2009	0.10
RegionalOne Credit Union	Fixed Loan	OO	6.29	5.99	2/06/2009	-0.30
United Credit Union	Home & Investment Loan	B	5.99	6.19	1/06/2009	0.20

Key: (OO) - Owner Occupied (I) - Investment (B) - Both

### Home Loans - 5 Year Fixed Rates

Institution	Product	Avail	Old Value	New Value	Date of Change	Change Value
Adelaide Bank	Fixed Loan	B	6.64	6.84	3/06/2009	0.20
ANZ Bank	ANZ Fixed Loan	OO	6.84	7.19	3/06/2009	0.35
Bendigo Bank	Fixed	OO	6.64	6.84	3/06/2009	0.20
Better Option Home Loans	BetterOption Fixed Rate Home Loan	B	6.04	6.19	2/06/2009	0.15
Community CPS Australia	Home & Investment Loan	B	6.59	6.79	1/06/2009	0.20
Greater Building Society	Getaways Fixed Home Loan	B	6.90	7.15	4/06/2009	0.25
Homeloans Ltd	Easy Saver Fixed	B	7.09	7.62	2/06/2009	0.53
HomeSide Lending	Homeside HomePlus	B	6.29	6.79	4/06/2009	0.50
IMB	IMB Fixed Rate Home Loans	B	6.44	6.69	1/06/2009	0.25
NAB	NAB Tailored Home Loan - Fixed Rate	B	6.49	6.69	2/06/2009	0.20
RAMS Home Loans	RAMS Fixed Rate	B	6.49	6.59	1/06/2009	0.10
RegionalOne Credit Union	Fixed Loan	OO	6.99	7.09	2/06/2009	0.10
United Credit Union	Home & Investment Loan	B	6.59	6.79	1/06/2009	0.20

Key: (OO) - Owner Occupied (I) - Investment (B) - Both

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