

## **BUILDING SOCIETY**

**A co-operative organisation originally established with the main aim of lending money for housing. More recently, building societies have diversified and many have subsidiaries which provide a range of financial services – including superannuation products – for their members and customers. Building societies are supervised as deposit taking institutions by APRA. Generally, housing finance is funded from members' deposits and share capital, the banking system, and government. The state or territory may guarantee the fund for certain loans lent at a low interest rate and a long term to those in need. With similar aims but of lesser importance are mutual funds which re cooperative societies.**

**The objectives of Building Societies are:**

- to be an alternative to banks and money lenders in household financial services.**
- to be businesses motivated by optimising the interests and needs of customers and to serve the community in which they are located.**

**The following factors have assisted the development of building societies:**

- the underlying strength of their**
- balance sheet .**
- compliance with the prudential standards of APRA in relation to capital structure, management policies and risk management.**
- the benefits of comprehensive and uniform supervision through the APRA system.**
- the acceptance by directors and management of prime responsibility for depositor protection.**
- they are subject to the general laws and codes of conduct relating to prudentially supervised financial institutions.**
- their powerful affinity with their local community and customer base.**

**Societies now provide vital financial services not only in their traditional regions of origin but also in interstate capital cities. A number of building societies which were fully owned by parent APRA regulated institutions were transferred back to the parent banking body during this time thus reducing the number of building societies making up the sector.**

**At 31 December 2002 there were 14 societies, eight of which retained a fully mutual structure. Several societies have issued capital and for most of these shares are traded on the Australian Stock Exchange.**

### **GROWTH AND SPREAD**

**A particular point of interest in building society development in the 2000-2002 period has been the broadening of their presence from their regional areas to interstate activity. This has not only provided competition to the banks and greater choice to the public in those new markets, but also diversified the geographic spread of risk and underpinned the growth of these regionally located institutions.**

## **COMMUNITY BANKING**

**The community banking concept has been embraced by several leading societies as an option in small country towns. There have been several successful examples where a building society has sponsored a community bank in towns where a major bank has departed. Building society sponsorship of community banking has been competitive in its terms and offers local communities some choice when exploring local community banking plans.**

**According to APRA, net interest income - or the margin - for the group is about 2.5%, compared to 4% for credit unions. But a number of challenges confront the industry. Building societies are highly geared towards home lending and are therefore vulnerable to a downturn in the housing sector.**

**Research by PricewaterhouseCoopers attributed up to 85% of building society loan books to retail home loans.**

**Building Societies are subject to the Financial Services Reform Act due in 2004. The new regime puts in place a more stringent licensing, training and disclosure regime for providers of financial products.**