



Abacus
Australian Mutuals

Association of Building Societies and Credit Unions

6 August 2009

Committee Secretary
Standing Committee on Communications
House of Representatives
Parliament House
CANBERRA ACT 2600
email: coms.reps@aph.gov.au

Dear Committee Secretary,

Abacus – Australian Mutuals appreciates the opportunity to contribute to the Committee's inquiry into cyber crime and its impact on Australian consumers.

Abacus is the industry body for credit unions, mutual building societies and friendly societies. Collectively, Abacus member institutions have more than \$70 billion in assets and serve more than 6 million Australians.

Credit unions and mutual building societies are Authorised Deposit-taking Institutions (ADIs), providing important competition and choice in the consumer banking market. All ADIs (banks, building societies and credit unions) are subject to the same prudential regulatory regime administered by the Australian Prudential Regulation Authority (APRA) under the *Banking Act 1959*. (See attached Fact Sheet for more detail on the mutual ADI sector.)

Cyber-crime is a significant and growing risk to our members. We welcome the Committee's inquiry and we wish the Committee well in its deliberations on this important issue.

Mutual ADIs

There are 117 credit unions and 9 mutual building societies serving 4.6 million members across Australia. Mutual ADIs exist only to serve their customers, who, as members, are also their owners. This undivided focus is confirmed by the fact that mutual ADIs consistently and strongly outperform the major banks in customer satisfaction surveys.

The high standards of credit unions and mutual building societies are reflected in their new code, the Mutual Banking Code of Practice (MBCOP), implemented on 1 July 2009. MBCOP makes 10 key promises:

1. We will be fair and ethical in our dealings with you;
2. We will focus on our members;
3. We will give you clear information about our products and services;
4. We will be responsible lenders;
5. We will deliver high customer service and standards;
6. We will deal fairly with any complaints;
7. We will recognise member rights as owners;

8. We will comply with our legal and industry obligations;
9. We will recognise our impact on the wider community;
10. We will support and promote this Code of Practice.

Mutual ADIs provide a comprehensive range of consumer banking services, including online banking, credit and debit cards, loans, deposits and insurance products.

Customers of mutual ADIs are protected by their ADI's focus on their interests and because all mutual ADIs are subscribers to the Electronic Funds Transfer (EFT) Code of Conduct. The EFT Code protects consumers from liability for unauthorised transactions. The Code is currently being revised by ASIC in consultation with stakeholders to better recognise the online environment.

Online transacting is convenient and highly valued by consumers. Mutual ADIs wish to continue to provide their members with constantly improving and flexible banking solutions in a secure and trusted environment.

Mutual ADIs are highly aware of the threat posed by cyber criminals in terms of direct costs, prevention and risk-management costs, and the cost to consumer confidence.

The EFT Code and other measures taken by institutions and jointly across industry provide a high level of protection for consumers but the cost of cyber crime, including the cost of fraud-prevention and risk-management systems, is ultimately borne by all consumers.

Fighting financial crime

Abacus has a dedicated financial crimes team that works very closely with the newly reformed High Tech Crime Operations Division of the Australian Federal Police. Abacus commends to the Committee the highly valued strategic and operational outcomes of these co-operative endeavours.

Abacus works in close partnership with the Australian Bankers' Association, Australian High Tech Crime Centre (AHTCC), AusCERT, IBM Cert and State and Territory police specialist computer crime units. Abacus was a founding private sector partner to the AHTCC 2003 National Response Plan to Cyber Crime and online banking fraud and has committed resources and support on an ongoing basis since 2003.

Abacus participates in a range of industry committees that deal with fraud, including technology-enabled crime. These include the Australasian Card Risk Council, Interbank Fraud Committee and BPay Fraud Sub Committee. Abacus also provides its own intelligence-gathering capacity, secure dissemination of information and alerts to members, and incident response capabilities to assist members to manage the increasing incidence and economic impact of cyber crime.

Cyber crime

The Australian Institute of Criminology recently estimated the cost of computer security incidents on Australian businesses at more than \$600m¹. Online financial credit and

¹Australian Institute of Criminology, June 2009, Industry sector and the prevalence of computer security incidents against Australian businesses

<http://www.aic.gov.au/en/publications/current%20series/cfi/181-200/cfi192.aspx>

debit card fraud data, including data from Abacus members, shows a year on year increase in Card Not Present (CNP - online or over the telephone) fraud from \$53.7m in 2007 to more than \$71.5m² in 2008.

Mutual ADIs are focused on protecting their members and promoting vigilance about online threats. To coin a phrase, mutual ADIs want their online transacting members to be alert but not alarmed. However, there is a critical need for government and industry to remain focused on the strategic issue of online trust and safety.

The key issues are: trust in the online infrastructure; and, trust in, and access to, appropriate early warning systems for threat escalations.

We see a critical role for government in providing:

- an appropriate legislative framework to respond to threats to online trust and safety; and
- dedicated resources deployable when such threats are escalated.

In the context of such threats as the reported Distributed Denial of Service attacks locally on a major bank³ and the US State Department⁴ websites in early June 2009, Abacus sees a need for coordination of early warning mechanism involving global Computer Emergency Response Teams (CERTS), the new GovCERT and Defence Signals Directorate operations as well as domestic internet service providers.

Abacus members continue to play a critical part in reduction of cyber crime at the institutional level. For example, Abacus members have adopted stronger authentication methods to mitigate the risk of unauthorised transactions by criminals who deploy "key logger" software. Abacus members also underpin their financial crime prevention work with robust account and transactional monitoring. Risk is also managed through adjusting of transaction limits.

Consumer education is critically important in raising awareness of cyber crime threats. In the context of safe banking and protecting members against theft of their financial information we have as an industry adopted the message:

"Your mutual organisation will never ask you to reveal personal banking codes or details in an email or unsolicited telephone call."

Risks to the wider banking community, including Abacus members, arise from domain registration, web page hacking, ease of establishing fake banking sites and emails to lure consumers to these sites through "phishing"⁵. Despite education campaigns, there are still a percentage of phishing recipients who respond to such emails. Many recent

² Credit and Charge Card Fraud Perpetrated in Australia and Overseas on Australian-issued Cards, 1 January 2008 - 31 December 2008
http://www.apca.com.au/Public/apca01_live.nsf/WebPageDisplay/FraudStats_2008B_CreditAndChargeCards?openDocument

³ NetBank woes - cyber attacks set to spread
<http://business.smh.com.au/business/netbank-woes--cyber-attacks-set-to-spread-20090702-d5un.html>

⁴ Cyberattack against the US continues
http://bigpondnews.com/articles/World/2009/07/09/Cyberattack_against_the_US_continues_350536.html

⁵ Phishing involves using a form of spam to fraudulently gain access to people's internet banking details
http://www.ahtcc.gov.au/tech_crimes_types/phishing.htm

phishing emails and more recently SMS texts feature extremely authentic-looking logos encouraging customers to disclose personal details.

A new variant is “in-session phishing”, where a “pop-up” screen can appear during an internet banking session, giving the impression that the pop-up is originating from the genuine website. Typically, the pop-up may direct members to fake websites or require them to enter details in a “branded” online form.

Abacus urges the committee to examine in detail the regulation of domains and to consider stronger regulation of domain registration and the internet generally. The ease of establishment and hijacking of sites for criminal purposes has affected mutual ADIs since 2003 and the threat is growing. In 2009 two mutual ADIs experienced sustained cyber attacks that affected service delivery to members.

We support the establishment of permanent roles dedicated to international liaison and co-ordination of CERTS globally.

Abacus recognises that the High Tech Crime Operations Division within the Australian Federal Police has responsibility and carriage of such operations. However, the Division is significantly under-resourced and is hampered by the sheer novelty in the legal system of prosecuting “money mules”⁶ and those committing criminal money-laundering offences utilising cyber crime techniques and internet banking channels.

We urge the Committee to consider stronger penalties against cyber criminals.

Abacus applauds Government efforts in establishing *E Security Week* and private sector partnerships. Abacus has partnered strongly with E Security initiatives each year and is a founding member of the relevant steering committee. Raising awareness of threats is important but the reality is consumers are often compromised at home or at work before the nature of any new emerging threat is known. Many home computers are unknowingly compromised, becoming tools for cyber criminals to launch distributed denial of service attacks which threaten the delivery of online transactional channels.

Recommendations

Abacus recommends the Committee consider the following priorities in the fight against cyber crime:

- Continued commitment by Government to ongoing education campaigns such as Scamwatch and E Security;
- Increased funding for Government campaigns warning about cyber crime risks including a concentrated focus on deterring “money mules”;
- Continued development of early warning mechanisms through trusted information networks within industry sectors;
- Targeted resources for law enforcement to respond to threats that emanate in other countries;
- Legislation to prevent criminals obtaining domain names to engage in Phishing; and

⁶ http://www.ahtcc.gov.au/tech_crimes_types/mule_recruitment.htm

Money Mule recruitment is the practice where members of the community are lured into ‘job scams and schemes’ under supposedly valid online work to move funds through their accounts and move offshore for criminal syndicates


http://www.goldcoast.com.au/article/2009/02/14/49315_gold-coast-news.html

http://www.ahtcc.gov.au/news_and_information/media_releases/080804_MR_Money_Mules_NSW.pdf

- Stronger penalties for cyber criminals, including those who hack into ecommerce databases and offer Australian financial data for sale.⁷

Please contact me on 02 6232 6666 for further information or to discuss any aspect of this submission.

Yours sincerely,



LUKE LAWLER
Senior Adviser, Policy and Public Affairs

⁷ <http://www.ecommercereport.com.au/story78.php>
<http://aecn.com.au/>

A Perth magistrate has put 22 year old Brendan Roy Taylor on a 12 month good behaviour bond for hacking into Bottle Domains computer systems, downloading tens of thousands of customer records, and trying to sell the credit card details online.

Australian Credit Unions & Mutual Building Societies

FACTS AND FIGURES AT A GLANCE

SIZE	
Numbers	<ul style="list-style-type: none"> > 117 credit unions > 9 mutual building societies
Assets and Growth	<ul style="list-style-type: none"> > Collectively, our sector has more than \$70 billion in assets¹. > Credit unions' on-balance sheet assets reached \$45.8bn in March 2009, growing by 10% annually while mutual building societies' on-balance sheet assets amounted to \$18.5bn in the same period.
Market Share	<ul style="list-style-type: none"> > Hold approximately 7% of the new home loan market and 12% of household deposits. > Collectively, credit unions and mutual building societies are the fourth largest holder of household deposits in Australia.
Population Penetration	<ul style="list-style-type: none"> > We serve over 4.6 million members - close to 1 in 5 of the total population > Population penetration (members as a proportion of the total population) is highest in SA (36%), Tasmania (36%), and NSW (28%)
STRENGTH	
Customer Satisfaction	<ul style="list-style-type: none"> > 85.7% of credit union and 88.5% of building society members reported high satisfaction in May 2009. > Credit unions and mutual building societies consistently out-perform banks (majors 71.4% and total banks 72.9% in May 2009).
Competitive Advantages	<ul style="list-style-type: none"> > Mutual structure means no tension between servicing customers and external shareholders – customers (members) are the owners > Better placed than most to satisfy key needs of consumers, that is: <ul style="list-style-type: none"> - member focus - sense of community / belonging - honesty and integrity - guidance - simplicity > Competitively priced > Close to half of all members are outside capital cities, approx. one quarter of which are in regional cities and three quarters in rural areas
Strong Regulation	<ul style="list-style-type: none"> > All credit unions and building societies (and banks) are Authorised Deposit-taking Institutions (ADIs), regulated under the <i>Banking Act</i>. We meet the same high standards of prudential regulation as banks with full regulatory oversight by APRA, the prudential regulator. > The Government has guaranteed all deposits of up to \$1 million at all Australian credit unions and building societies (and banks). For deposits of more than \$1 million, an optional government guarantee is available for a fee.
PRODUCTS	
Product Range	<ul style="list-style-type: none"> > Mutual ADIs offer a full range of personal banking services; smaller ones provide more limited facilities
Product Usage	<ul style="list-style-type: none"> > More members now using their CU as their main financial institution – 14.2% had six or more products with their CU in June 2001; by March 2009 this was up to 24.1% (i.e., a 70% increase in 8 years)

¹ Based on June 2008 annual reports.

Australian Credit Unions & Mutual Building Societies

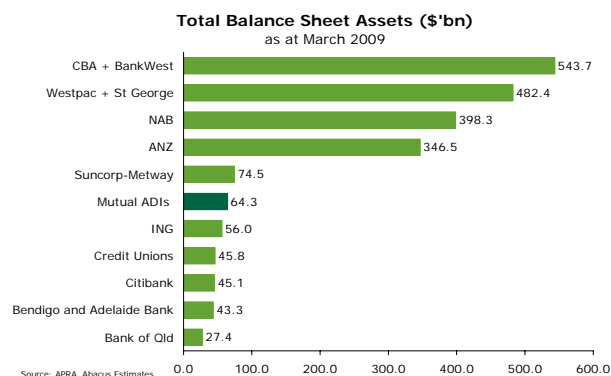
Mutual ADIs

There are 117 credit unions and 9 mutual building societies in Australia – ranging from small ADIs through to the largest credit union with over \$6bn in assets. Collectively, the industry has more than \$70bn in assets.

Credit unions and mutual building societies are customer owned – operating under the mutual principles of one member one vote, an equal share in the say of the credit union, and with the purpose of member and community benefit at the forefront of their operations.

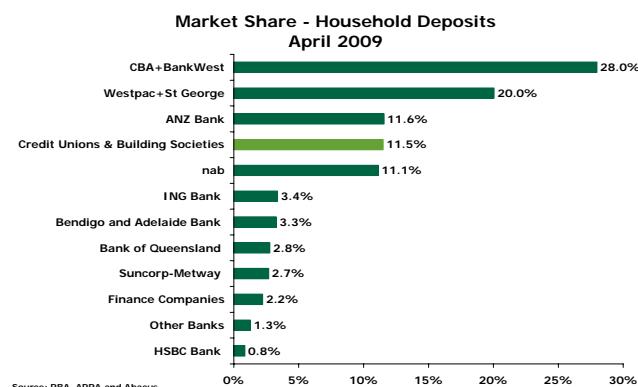
Market Share

Collectively, credit unions and mutual building societies sit behind the five major banks and Suncorp-Metway in terms of total on-balance sheet assets.



(Source: APRA)

Mutual ADIs hold approximately 7% of the new home loan market. As a group, credit unions and mutual building societies are the fourth largest deposit gathering force after CBA, Westpac and ANZ reaching almost 12.0% market share.



(Source: APRA, RBA)

Products and Services

Credit unions and mutual building societies offer a full range of personal banking services with smaller ones providing more limited facilities.

Credit unions and mutual building societies charge less than the major banks in interest rates as shown in the following table.

Standard Variable Home Loan Rates by Lenders (as listed by CANNEX)

29-Jun-09

Standard Variable	Average	Min
5 Majors	5.78	5.74
Credit Unions	5.56	4.81
Building Societies	5.45	5.09

(Source: Canstar Cannex)

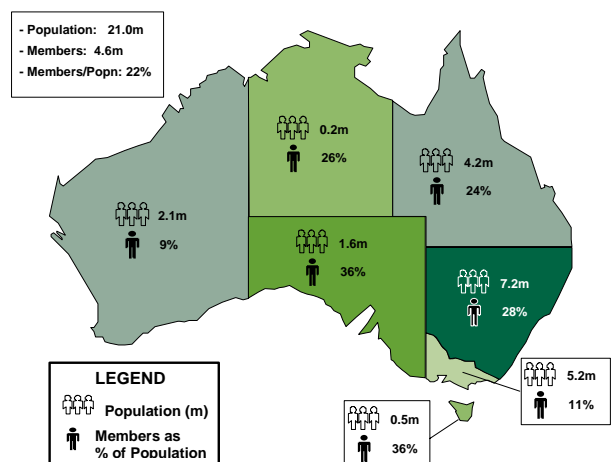
An ASIC survey released early in 2008 also reported that credit unions and mutual building societies charge, on average, the lowest overall loan fees in the lending market.

Similarly, we offer attractive deposit rates on saving investment accounts and 30-day term deposits as at 29 June 2009, offering between 74 and 125 basis points higher than the major banks.

In May 2009, 85.7% of credit unions' and 88.5% of building societies members were satisfied, consistently out-perform banks (majors 71.4% and total banks 72.9% in May 2009).

Strong country coverage

As at June 2008, Australia's total population was 21 million, of which 4.6 million (22%) were credit union or mutual building society members.



(Source: MMD)

Population penetration (members as a proportion of the total population) highest in SA (36%), Tasmania (36%), and NSW (28%)