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Credit Union Services Corporation
Industry Association

30 September 2005

Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
Department of the Senate
Parliament House
CANBERRA ACT 2600

Per email: corporations.joint@aph.gov.au

Dear Sir/Madam

Inquiry into corporate responsibility

Credit Union Services Corporation (Australia) Limited (CUSCAL) welcomes the opportunity to contribute to the *Parliamentary Joint Committee on Corporations and Financial Services'* (PJC) *Inquiry into corporate responsibility*.

With over 3.5 million members, Australia's 160 credit unions are an important corporate citizen in the financial services market. Credit unions' strong support of corporate responsibility reflects their origins and their thriving contemporary role. Credit unions have an extensive history of providing responsible initiatives because corporate responsibility is inherent to their mutual structure.

CUSCAL's central theme in relation to any corporate reform proposals is to ensure any new measures are appropriately targeted and do not add to credit unions' regulatory compliance costs. Regulatory compliance costs are a heavy burden for credit unions, diverting resources away from their ability to engage with their communities.

This submission covers CUSCAL's observations in relation to:

- the embedding of corporate responsibility within credit unions' structure and operations;
- the definition and scope of corporate responsibility;
- the sufficiency of the current legal and regulatory framework;
- credit unions' extensive commitment to corporate responsibility; and
- the practical implications of mandating corporate responsibility.

CUSCAL Industry Association would be pleased to appear at any public hearing of the inquiry. In the meantime, if the PJC would like to discuss any aspect of this submission, please contact Josh Moyes, Adviser Public Affairs, on (02) 8299 9033 or at jmoyes@cuscal.com.au.

Yours sincerely

LOUISE PETSCHLER
Head of Public Affairs

Submission

Parliamentary Joint Committee on Corporations and Financial Services:

Inquiry into corporate responsibility

Credit Union Services Corporation (Australia) Limited
September 2005

Table of Contents:

1. Recommendations

CUSCAL proposes the following recommendations:

- The PJC should support initiatives that encourage, reward and improve the ability of the regulated-community to continue to develop their own initiatives and undertake voluntary disclosure in relation to their corporate responsibility activities.

- Options that involve mandating "corporate responsibility activities" or reporting against legislative or regulatory criteria for social or corporate responsibility should be rejected. Such measures would impose further costs and burdens on corporations without effectively promoting the interest of non-shareholder stakeholders nor leading to improved genuine community commitments from corporations.

- Any measures considered to promote or extend commitments by corporations to corporate responsibility should ensure that the existing experience and good practice of community-based mutuals like credit unions is appropriately recognised and considered, and that any one-size-fits-all approach that could unintentionally limit the scope or ability of small institutions to meet these commitments is avoided.

- CUSCAL believes a role remains for Government and the corporate sector, as well as others in the community, to continue to promote, encourage and provide opportunities for corporate responsibility initiatives.

- The focus of any recommendations should be on the adequacy and effectiveness of responsible initiatives by all organisations, and not merely those of the corporate sector.

- Government should also support the industry-based development of effective measurement of corporate responsibility activities including fostering best practice, cross-sector initiatives and recognising innovative and effective programs.

2. General observations

In the current environment, where industry drives the development and assessment of corporate responsibility, credit unions have been able to innovate and offer responsible initiatives to their members and the broader community. This has been critical to credit unions' long-standing success as a significant participant in the Australian deposit-taking market. This flexibility to develop appropriate corporate responsibility initiatives is also a key factor in the relationship credit unions have with their 3.5 million members around Australia. Credit union members (customers) are not a separate group of "stakeholders" whose interests may conflict with the interests of credit union shareholders. Credit unions are mutual entities, which means their owners and their customers are the same people – credit union members.

Imposing separate legislative criteria for corporate responsibility measures or reporting is not, in the credit union industry's view, an effective response to encouraging and supporting genuine and meaningful commitments by corporates and other organisations to this important work.

Credit unions have a strong and clear commitment to corporate responsibility. However, our experience across the varied legislative and regulatory regimes in which our activities are covered demonstrate that any attempt to amend the *Corporations Act 2001* to impose notional new criteria or additional reporting obligations would result in additional costs to credit unions and, unintentionally, retard the promotion and development of corporate responsibility initiatives within the sector. This would be a poor outcome that would work against the material benefits enjoyed by credit union members, consumers or the broader community who are all beneficiaries of the economic and social initiatives credit unions undertake.

The Committee would be aware that the extensive regulatory framework covering the financial sector places a substantial compliance and operational cost on credit unions' business, which affects their ability to engage in broader community and corporate responsibility activities. CUSCAL believes mandating corporate responsibility measures within the *Corporations Act 2001* will add compliance burdens and costs and adversely affect regulated entity's ability to develop, apply and harness their corporate responsibility initiatives. That is, if mutuals were subject to mandatory corporate responsibility obligations the cost of compliance in terms of money, time and opportunity would have to be taken from the hands of members in terms of fees and charges or alternatively from community funding initiatives. This would be an unwelcome outcome for credit unions, most of which were founded upon and remain devoted to their local community. It would also be inconsistent with the policy objectives being considered by the PJC.

Any proposals should ensure credit unions, which already contribute significantly to their communities, are not adversely affected by any amendments to the *Corporations Act 2001*. CUSCAL believes that a reduction in regulatory costs is more likely to facilitate further corporate responsibility by the regulated-community. CUSCAL urges the PJC to allow the corporate sector time to continue its current trend of developing responsible practices and initiatives, a trend that is already part of credit unions' philosophy and approach to business. Various tools to measure corporate social responsibility are currently being finished and implemented. With the benefit of these measuring and assessing tools, industry and government will be more readily able to identify, report and assess the quality of their corporate responsibility activities.

3. Definition and scope of corporate responsibility

The experience of the credit union sector shows success across a diversity of responses to the challenge of delivering on corporate social responsibility. From national and high profile initiatives to micro-credit and savings programs, credit unions have experience individually and collectively across a wide range of possible ‘corporate responsibility’ initiatives.

The benefits of such proposals may vary, and the profile and community affected differ, but our industry’s experience shows (in CUSCAL’s view) the benefit of encouraging a range of responses and programs consistent with a broader community benefit goal.

For this reason, CUSCAL believes caution should be exercised as to the definition of corporate responsibility.

A narrowly pitched definition could make identifying corporate responsibility difficult, with a limited range of activities being contemplated. More appropriate would be a wider definition, which considered instances of corporate activity broadly in environmental, social, cultural and economic arenas.

There is a positive correlation between ethical behaviour, embodied in concern for the environment and other responsible corporate activities, with corporate performance. Credit unions are established with the belief that their primary purpose is to serve their members and through them the wider community.

To this end, credit unions continually strive to improve their products and services for their members’ advantage as well as to develop initiatives that reflect their corporate values.

As mutual organisations, where each member has an equal vote, credit unions operate under a common set of values. These values are:

- co-operation;
- moral integrity;
- trust;
- financial prudence;
- caring for members; and
- social responsibility.

For credit unions, each of these core values is reflective of their corporate responsibility in terms of their impact on the way credit unions relate to their members and the community. For example, credit unions offer fairer fees across Internet banking, BPAY, direct debit, deposits and account transfer services. Others offer unsecured personal loans without application fees or loans that do not penalise members for an early payout.

As mutual organisations, credit unions are not driven solely by profit motives like other corporations. Instead, they are dedicated to returning benefits to members. This typically arises in terms of fairer fees and product and service pricing as well as their contribution to their local community. Credit unions’ mutual structure, together with their core values, means they offer a different kind of banking where they focus on initiatives to deliver benefits to members and the community. Credit union members, who Cannex believe receive an estimated $110 per year in extra member value compared with customers of banks, appreciate this difference.

CUSCAL urges the PJC consider a broad definition of corporate responsibility that reflects the extensive approach of the credit union sector, and encourages a mix of local and national initiatives by other corporates.

4. Sufficiency of the current legal and regulatory framework

Credit unions have a long-standing involvement in corporate responsibility and, in CUSCAL's experience, tend not to aggressively promote initiatives for public relations or customer growth benefits.

In this context, CUSCAL is strongly of the view that legislative reform that mandates limited corporate responsibility activities among the regulated-community would risk increasing costs without delivering real gains for communities.

CUSCAL believes that before the PJC recommends any measures to reform the *Corporations Act 2001* to mandate corporate responsibility activities and reporting, an assessment should first be made about current practice and balance the possible benefits against what are likely to be substantive increases in costs and complexity (particularly for small organisations).

The PJC will be aware that credit unions are Australian Financial Services (AFS) licensees regulated by ASIC under the *Corporations Act 2001* and subject to its broad array of disclosure and consumer protection requirements as well as mandatory subscription to alternative dispute resolution (ADR) schemes. Credit unions are also supervised by APRA as Authorised Deposit-taking Institutions (ADIs) under the *Banking Act 1959* and subject to risk and capital adequacy obligations.

Additionally, credit unions are subject to the *Uniform Consumer Credit Code* (UCCC), which requires they be sensible to the needs of borrowers. Credit unions are also subscribers to a range of self-regulatory codes, including the *Credit Union Code of Practice* and the *Electronic Funds Transfer (EFT) Code of Conduct.* Importantly, these codes set out the proper treatment for dealing with credit union members and other consumers and stakeholders.

The PJC will be aware that under general law, together with the existing provisions of the *Corporations Act 2001*, company directors have a series of duties, principal among them being the promotion of the interests of their company and not the interest of individual shareholders or other parties[1]. The interests of shareholders and other relevant stakeholders cannot be disregarded but reform measures should not be drafted inconsistently with director's existing statutory and general law duties to their companies – moreover, the current regime does not prevent directors from considering the interests of non-shareholders and the broader community.

For credit unions, as community-based organisations, those interests are clearly a critical and ever-present consideration.

Directors are primarily responsible to their corporations and through this duty to their shareholders. This is a longstanding obligation derived from the general law, director's fiduciary duties and the operation of the *Corporations Act 2001*. Good directors will be conscious of the long-term benefits of corporate responsibility for their shareholders and the community. Taking the interests of the company first, directors acting properly think to the long-term, which can and often does include its reputation, its relationship with customers and its interaction with the community and the environment.

For credit unions these matters are embedded in their organisational structure and approach and this is emerging within other parts of the corporate sector as well.

[1] An exception to this obligation is where there is a voluntary assumption of trust and confidences or for specific fact situations. It is not clear that these exceptions arise in relation to the obligation set out in clause 6.

If the *Corporations Act 2001* were amended to require directors to make decisions cognisant of short-term and immediate social or other community needs this would retard their strategic and risk decision-making, which would be detrimental to both shareholders and the broader community. It would also divert limited resources from sensible corporate responsibility initiatives towards compliance and reporting obligations, constraining the innovation credit unions make in the corporate responsibility sphere.

Accordingly, CUSCAL strongly opposes a provision in the *Corporations Act 2001* that required a credit union to have regard to the interests of other parties before the interests of their members (who are their shareholders). This is not a rejection of corporate responsibility, which is inherent and a core and ongoing commitment in the credit union sector, but a reflection of the appropriate allocation of corporate duties, responsibilities and liabilities owed by directors.

Additionally, CUSCAL notes the incomplete review by the *Corporations and Markets Advisory Committee* (CAMAC) on the scope of directors' duties under the *Corporations Act 2001*. This review substantially overlaps with the *Terms of Reference* for this *Inquiry into corporate responsibility* at least in terms of considering the scope of s.181 of the *Corporations Act 2001*. In particular, the CAMAC review is considering whether the *Corporations Act 2001* should be amended to require directors consider the views of non-shareholder stakeholders when making their corporate decisions. CUSCAL urges consistency and consultation between the PJC and CAMAC as these important issues are deliberated.

5. Credit unions' commitment to corporate responsibility

The credit union sector is replete with examples of their strong community focus and their particular commitment to corporate responsibility. Reinvesting in their communities and engaging in social responsibility is important to credit unions, who satisfy their social obligations through, *inter alia*, community support, culturally appropriate services, philanthropy, environmental consciousness, microcredit and financial literacy measures.

5.1 Community support

Many credit unions offer grants to their local community. These may be to assist others to realise their potential, to help people with a particular need or facing an emergency or to make a difference by supporting innovative and creative thinking and activities. There are numerous examples of these types of grants among credit unions; an excellent illustration is the community grants offered by *RegionalOne Credit Union*.

> ***RegionalOne Credit Union*** *in Victoria recognises that as a community-owned organisation they have a responsibility to contribute to their region. In this context they offer grants to provide a start to members of the community who have ideas to address a community need.*
>
> *Grants are also made to encourage participation and collaboration to solve a problem or to promote creative or innovative thinking. Since December 2002, RegionalOne has issued over 90 grants. A list of these grants is available at their website at: www.regionalone.com.au*

A further example is *Savings & Loans Credit Union's* support of the annual Christmas Pageant in South Australia as well as their contribution to the Women's and Children's Hospital.

> ***Savings & Loans Credit Union*** *in South Australia prides itself on giving back to the communities in which it operates and what better way than supporting a family favourite – the Glenelg and Naracoorte Christmas Pageants. These free family fun days uphold what Savings & Loans stands for, it's accessible to everybody, it's supporting the community and most particularly it's for families.*
>
> *Savings & Loans Credit Union with five other credit unions in South Australia also sponsors the Credit Union Christmas Pageant, marking the traditional beginning of Christmas in Adelaide. More information about the pageant is at: http://www.cupageant.com.au/*
>
> ***Savings & Loans Credit Union*** *also offer a Women's and Children's Hospital Visa Card. This is a community-minded card. At no cost to the cardholder, a percentage of all Visa purchases go towards the much-needed upgrade of the Hospital's emergency department. Over $1.5 million has already been raised and construction is underway.*
>
> *"The generosity of Savings & Loans Credit Union and its members means we will complete this important project years ahead of what would otherwise have been possible," said Heather Gray, chief executive of the Children, Youth and Women's Health Service.*
>
> *More information about the Women's and Children's Hospital Visa Card is at: http://www.wch.sa.gov.au/support/corporate/savingsloans.html*

Individual credit unions also engage in their own philanthropic activities. For example, the *City Coast Credit Union Foundation* (CCCUF), which is part of *Australian National Credit Union* (ANCU), was established in 2003 to support initiatives in the communities in which City Coast Credit Union operates.

> *The* ***CCCUF*** *builds on credit unions' heritage and belief that people helping others can achieve great things. The CCCUF provides two grants a year, worth between $3,000 and $15,000, for projects that help the community through economic growth, environmental sustainability and social development. Its first grant of $10,000, for example, is supporting a community-based program that aims to protect and improve the Illawarra's many natural environment areas.*

These are just a few examples of the type of contribution, replicated across Australia, the credit union sector already makes to individuals in the broader community. These measures are motivated by credit unions' commitment, at both the corporate and local branch level, to their individual communities.

5.2 Culturally appropriate services

Traditional Credit Union (TCU) was established in 1994 to provide culturally appropriate financial services to Aboriginal people living in remote communities in the Northern Territory, particularly those disadvantaged by a lack of existing services. TCU has its head office in Casuarina and branches in Milingimbi, Galiwinku, Gapuwiyak, Ramingining, Maningrida, Wadeye, Gunbalanya, Warruwi, Ngukurr and Numbulwar. TCU seeks to use local staff to operate its branches, creating employment opportunities for Indigenous people to work in and manage its remote branches. The PJC's *'Money Matters in the Bush'* (2004) report recognised the importance of TCU to the Indigenous community, quoting TCU director Mr Djerringal Gaykamanu:

> *"I started in the sixties to work with the people, bit by bit, for community development and I am still working. I am the eldest at Milingimbi. I look after the community and I look after the TCU. I know the background story of the TCU – where it started, where it has come from and what it is like now. The TCU is a very big name and it has become really good. Everybody is happy that we started small and have grown big. That is very important for our training, for business and for saving money. We can show our kids down there why we started it up."*

First Nations Credit Union (FNCU) was founded in 1999 to assist Aboriginal and Torres Strait Islander peoples take control of their finances and economic futures by establishing an independent Indigenous credit union, owned and operated by Indigenous people, to provide quality services to members. Wherever possible, FNCU employs and trains Indigenous people as staff, managers and directors – currently 70% of FNCU staff is Indigenous. FNCU developed the *My Moola* booklets on budgeting and saving[2]. Demonstrating the success of this publication, a subsequent series of *My Moola* financial literacy materials were produced by ASIC. While the model for FNCU is likely to evolve to meet the needs of its membership and extended community groups, it represents a further illustration of the sector's willingness to proactively seek solutions and initiatives to match credit union competence and skills in financial services with community need.

The provision of culturally appropriate banking and financial services was recognised by the PJC in *'Money Matters in the Bush'*. In particular, the PJC recognised that the existence of these credit unions meant that geographically isolated communities can still access banking and financial services and that Indigenous consumers can access culturally appropriate financial services. TCU and FNCU are examples of the benefits of community-orientated organisations such as credit unions. The *Northern Territory Government*, the *Department of Family and Community Services* and *Reconciliation Australia* have, among others, acknowledged the important role and contribution of the credit union industry in this area.

5.3 Providing services in no-bank towns

Credit unions, through CUSCAL, and the Commonwealth Government undertook a joint *CreditCare* project from 1995 to 2000. This project aimed to maintain and develop financial services infrastructure in rural and remote areas where these services had been withdrawn or where there had never been any such services. This program did not simply offer funding to enterprises to open services in regional communities, in fact the start up and operations costs remains with individual credit unions. Instead, the *CreditCare* project fostered self-help among communities in need. The PJC recognised the contribution of credit unions where it quoted Dr Gary Lewis in its *Money Matters in the Bush* report:

> *"The model was carefully designed to neither directly fund nor subsidise the establishment of credit union branches or agencies. Rather the program provided resources to assist communities themselves discover the means of re-establishing financial services utilising existing resources, and link these with a host institution. CreditCare's maxim was that it was in a community not simply to help but to help a community help itself."*

In the 5 years of its operation, *CreditCare* visited 170 towns and provided 58 communities with a branch or agency, 50 of which were provided by credit unions.

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[2] http://www.firstnations.com.au/Tips_Advice/mymoola.asp

Building on the success of the *CreditCare* project, the wider *Regional Transaction Centres* (RTC) program was established with a focus on small towns and communities. Each RTC under the scheme offers basic financial services, telecommunications, *Medicare* facilities, *Centrelink* services and other Government services. Drawing these services together makes the development of a RTC more viable than if any of these services sought to operate on their own.

This program was developed not because of a legislative or regulatory imperative – but through a proactive response to needs identified by communities and the credit union industry.

5.4 Philanthropy

The *Credit Union Foundation Australia* (CUFA) supports the philosophy and principles of the credit union sector. Funded by credit unions and CUSCAL, CUFA is a development agency for the Australian credit union sector. CUFA has both a domestic and international focus on areas and people in need.

*A recent example of **CUFA's** work includes their management of the collection of over $600,000 in funds for the Credit Union Tsunami Appeal, following the Boxing Day 2005 natural disaster.*

CUFA also assists with the embryonic credit union movement in the Asia-Pacific region through microfinancing activities. Based on the principles of mutuality, CUFA endeavours to be involved with projects that encourage the manifestation of grass roots financial initiatives that offer the local populations an ability to be engaged in their countries emerging financial sector.

CUFA is currently involved in microfinance projects in Bougainville, Indonesia, Philippines and Cambodia.

Bougainville:

- *there are 237 active Grassroots Microfinance Initiatives (GMFIs), comprising 103 in North Region, 62 Central and 72 South Region*
- *there is a total membership of GMFIs of 15,073.*
- *there is a total savings of Kina 2,312,945 (AUD$951,829)*
- *there have been total loans disbursed of Kina 1,449,635 (AUD$596,558)*

Cambodia:

- *36 active Savings Banks (SBs) have been set up*
- *total membership of 18,262 which includes 11,600 females*
- *370 people (170 female) trained and active as Directors, members of Executive, Supervisory and Credit Committees and employees of SBs*
- *total savings accumulated US$34,978, comprising US$12,241 compulsory savings and US$22,737 voluntary savings*
- *total loan balances outstanding to 5314 active borrowers - US$615,603*
- *5000 families affiliated to micro-insurance program*
- *enhanced legal environment for CU development including Government policy and regulation in place to enhance cooperative development*
- *community perception changed from an external micro-credit environment to member owned and operated savings.*

Indonesia and Philippines:

- *35 partner CUs in Manila and West Kalimantan to recruit a total of 12,250 new members by 30 June 2005*
- *savings of US$245,000 generated from 12,250 new members*
- *provision of loans totalling US$200,000 to 10,000 new members*
- *increased number of poor people participating in gender balanced decision making at village level CUs*

> - *25% increase in ordinary savings of the 35 project partner CUs*
> - *build and strengthen the professional management capacity of 20 CUs in Manila and West Kalimantan*
>
> *In 2004, CUFA partnered with FutureStaff, a registered training organisation, in the to develop targeting financial literacy needs in regional Australia. The aim was to equip participants with the skills they need to manage their personal finances. The first pilot was run in partnership between* ***New England Credit Union*** *and the Armidale Aboriginal Medical Service employees. The second pilot involved Orange Credit Union together with the Orange Aboriginal Medical Service, Mid-Western Health Service and key local Indigenous representatives.*

Significantly, CUFA is developing a *Corporate Social Responsibility (CSR) Toolkit*, for credit unions to frame their corporate responsibility activities. The CSR Toolkit will link into the credit union sector's competitive attributes of community focus, social responsibility and mutual interest. The CSR Toolkit will enable credit unions to lean about CSR, to capture their corporate responsibility activities and to generate sustainability reports, which follow the *Global Reporting Initiative's* (GRI) international reporting framework.

Areas of focus in the CSR Toolkit include:

- governance and accountability;
- business ethics;
- workplace relations;
- human rights;
- marketplace responsibility;
- socially and environmentally responsible financial products and services;
- the environment;
- monitoring the supply chain;
- sustainable and responsible investment;
- stakeholder engagement; and
- community investment.

5.6 Environmental consciousness

A number of credit unions offer products and services that are environmentally conscious. For example, as a signatory to the *United Nations Environment Programme Statement by Financial Institutions on the Environment and Sustainable Development*, Victorian credit union *mecu* has adopted a *Sustainability Strategy*. Reflecting this strategy are *mecu's* award winning *goGreen* car and home improvement loans.

> ***mecu*** *in Victoria offers the Banksia Award winning goGreen Car Loan, which sets out different interest rates depending on the emissions of the vehicle purchased. The lower the emissions the lower the interest rate. Additionally, to help reduce the impact of these cars on the environment, mecu offset 100% of the greenhouse gas emissions that goGreen loan purchased cars produces for the life of the loan.*
>
> *In partnership with Greenfleet, mecu plant and maintain 17 native trees per goGreen Car Loan in the Murray Darling Basin. As these trees grow, and there are now over 22,000 trees planted under the scheme, they absorb greenhouse gas emissions and help tackle salinity, improve water quality and provide essential habitat for endangered species.*
>
> *mecu also offer a goGreen Home Improvement Loan where borrowers can save money through lower interests rates where they seek to save the environment by updating their home with energy and water saving devices. For example, heat pumps (reverse cycle air conditioning), high efficiency gas heaters, solar electricity generation, wind electricity generation, solar hot*

> *water, grey water recycling system, waterless composting toilets, rainwater tanks, insulation, 5 star energy efficient glazing and awnings.*

Another example of environmentally aware corporate activity is *Maleny Credit Union's Cool Home Loan*.

> *The **Maleny Credit Union** (MCU) in Queensland offers a home loan that directly encourages energy efficient housing. The loan offers a discounted competitive interest rate and no ongoing fees for homes that meet five or more energy saving criteria. The "Cool Home Loan" has been developed in conjunction with the Queensland Conservation Council as part of the Cool Communities initiative.*
>
> *To qualify for a Cool Home Loan, in addition to satisfying normal credit guidelines, borrowers need to meet criteria comprising features that go to make a home energy efficient. For example,*
>
> - *water efficient fittings;*
> - *ceiling, roof and walls insulation;*
> - *connection to Earths Choice Electricity;*
> - *windows tinting and external awnings or shadings over windows; and*
> - *solar PV panels.*
>
> *For more information see: http://www.malenycu.com.au/coolhome_html*

5.7 Microcredit and savings

As part of their commitment to corporate responsibility, credit unions have well-established relationships and continue to offer financial services to low-income earners as well as to vulnerable consumers. Historically, many credit unions were established on the basis of people coming together to form co-operatives to provide financial services to consumers otherwise unable to access these services in the mainstream credit market. Without this contribution, many of these consumers would be prey to opportunistic fringe lenders.

The focus on microcredit within the credit union sector generally revolves around the provision of low or no interest loans to assist members in their local community. An excellent example is *Fitzroy & Carlton Community Credit Co-operative*, a community-managed credit union providing financial services to people on low incomes.

> ***Fitzroy Carlton Community Credit Co-operative** in Victoria has nearly 4,000 members, a large proportion of whom receive pensions or benefits and their loans are for less than $1500. Small loans are offered to members who would not qualify for credit at other financial institutions. These loans allow members to prove their ability to repay even if their debt to income ratio is high. These loans are for household goods, school costs, holiday costs, car repairs, debt consolidation or emergencies like family sickness and death. Emergency loans (up to $400) are offered with no interest charged, for members who find themselves in urgent financial circumstances. These loans are conditional on the establishment of a budget account to bring outstanding debts under control and to avoid future financial hardship.*

A further example is the NSW-based *Encompass Credit Union*, which runs a *Boomerang Grant* scheme, which is a contender for the *2005 Fair Trading Awards*.

> ***Encompass Credit Union** in New South Wales, together with Barnardos Australia, have developed a microcredit scheme for residents of a housing estate, in the Penrith region of outer Sydney. Encompass Credit Union have put up $10,000 a year over 3 years and residents can apply to Barnardos for an interest free loan to purchase essential items. When the money is repaid to Barnardos, it is re-lent to other applicants from the same housing estate. There have been no defaults under the scheme, a strong indicator that this initiative is contributing meaningfully to breaking the cycle of poverty facing residents who have low-incomes or are welfare recipients.*

These types of commitments to corporate responsibility should be carefully considered before legislative reforms are introduced that could, perhaps inadvertently, retard the development of these types of worthy initiatives. It would be a perverse outcome, and counter to their history, philosophy and market position, if credit unions were forced to abandon some of their corporate responsibility activities as a result of undue compliance and cost burdens associated with identifying and reporting corporate responsibility initiatives under the *Corporations Act 2001*.

5.8 Financial literacy

As part of their effort to promote effective decision-making among members and to counter the risks of over-commitment, high household debt and other financial hazards, credit unions undertake a range of financial literacy initiatives. CUSCAL was awarded the *Consumer Service Award (Business/Industry Association category)* at the NSW Office of Fair Trading's *4th Annual Consumer Protection Awards* in 2004 for the *Take Control* and *The Good Dosh* financial literacy publication series. This Award recognised the credit union sectors' long history and commitment to developing useful and effective financial literacy initiatives for members and the broader community.

> ***Berrima District Credit Union** in New South Wales developed workshops on money skills for year 6 primary school students and year 12 high school students in the Southern Highlands and Tablelands.*
>
> ***Community First Credit Union** in New South Wales has developed their FirstEducation scheme, which produces educational materials for members, but is not a sales tool.*
>
> ***Horizon Credit Union** in New South Wales has provided seminars with Bridges on pre-retirement strategies, financial planning and investments.*
>
> ***Police and Nurses Credit Society** in Western Australia has a range of initiatives designed to assist members gain financial freedom, these include:*
> - *Member Advice Officers visit members in their workplaces to provide seminars about financial products, fee free banking and how to access their accounts in different ways;*
> - *talks to the Retired Police Association about pre-retirement and retirement issues associated with money management and planning;*
> - *the Financial Planning arm of Police and Nurses Credit Union hosts seminars to inform members about superannuation; and*
> - *a planned initiative to provide money management advice to local high school students in the Perth metropolitan area.*
>
> ***Queenslanders Credit Union** in Queensland run Personal Better Budgeting sessions to equip families and individuals with skills to establish and successfully run budgets – this is not a sales activity. Budgeting*

> *sessions are also offered in collaboration with Brisbane City Council.*
>
> ***Queensland Teachers Credit Union** in Queensland has implemented a financial coaching program for secondary school students to teach basic money management skills encourages students to develop healthy financial habits.*
>
> ***Traditional Credit Union** in the Northern Territory has a significant range of positive, effective and culturally appropriate financial literacy initiatives. Many of these were highlighted and recognised in the Parliamentary Joint Committee on Corporations and Financial Services' report 'Money matters in the bush'.*
>
> ***WAW Credit Union** in Victoria produced a children's book entitled 'Buck's Big Adventure', which is designed to educate children about the importance of money and how it works in the local community.*

Credit unions' contribution to financial literacy was also recognised in the *Australian Consumers and Money* report of the *Consumer and Financial Literacy Taskforce* in late 2004, now the *Consumer and Financial Literacy Foundation*. The PJC should consider credit unions' broad range of financial literacy initiatives, as well as the content of this national financial literacy report and the ongoing objectives of the *Financial Literacy Foundation*, before framing any recommendations that mandate corporate responsibility activity under the auspices of the *Corporations Act 2001*.

6. Practical implications – *difficult to measure and incomplete coverage*

CUSCAL agrees that corporate responsibility is not only the right thing to do but should be measurable as being good for business as well. Unfortunately, measuring corporate responsibility is very difficult and current domestic and international attempts indicate this is an evolving process. For example, the Global Reporting Inititiative's (GRI) *Sustainability Reporting Guidelines* provide a detailed framework for corporations to measure and report on their socially responsible activities. The GRI's reporting framework is being used by CUFA in its development of a CSR Toolkit for use throughout the credit union industry. CUFA is also using the GRI *Finance Sector Supplements*, which include social and environmental performance indicators. However, a key shortcoming of the GRI's as a reporting tool for the Australian credit union industry is they are targeted towards global corporations rather than businesses with a purely domestic focus.

In this context, the Commonwealth Government recently asked the Australian Stock Exchange's (ASX) Corporate Governance Council (CGC) to consider developing a standard for sustainability reporting. CUSCAL welcomes Senator Ian Campbell, Minister for the Environment and Heritage, observation that reporting should remain voluntary, as the government was *"not in the business of putting more red tape on business"*.

The Commonwealth Government's *Australian Research Council Linkage Project* is another example, where a grant of funds has been made to the *University of Sydney* and *CPA Australia* to develop a framework for managing and reporting non-financial information. Relevantly for this PJC review, this 3-year project is exploring sustainability management and reporting by companies and not-for-profit organisations.

Additionally, the *St James Ethics Centre's* recently released its *Corporate Responsibility Index* (CRI), which offers an alternative to regulatory compliance by providing a mechanism for business to assess the responsibility and sustainability of their business practices against recognisable benchmarks. Accordingly, CUSCAL believes this evolving area does not require heavy regulation and urges the PJC to avoid recommendations that will apply prescriptive statutory obligations on corporations when the ability to measure or assess compliance remains embryonic.

Mandating corporate responsibility under the *Corporations Act 2001* would capture a great many companies across Australia but it would not reflect the wealth of corporate responsibility activities being conducted by not-for-profit and other organisations not presently regulated by the *Corporations Act 2001*. Equally, it would not require corporate responsibility compliance by partnerships, individuals or other non-corporate forms of organisation or even governments. Accordingly, the focus of any recommendations should be on the adequacy and effectiveness of responsible initiatives by all organisations, and not merely those of the corporate sector.

This lack of consistency would undermine the effectiveness of a corporate responsibility disclosure and reporting regime by creating an imperfect picture incapable of effective comparison or measurement. Additionally, without an ability to objectively assess compliance, enforcing accountability will become a significant extra burden for credit unions and other corporations, posing a substantial risk of the imposition of additional costs, without necessarily delivering material benefits to the community.

Conclusion

As mutuals, credit union directors' responsibility to their shareholders is not driven by maximising profit, but is based on meeting members' needs and engaging with their communities. CUSCAL believes, consistent with current law, it is up to shareholders to provide the impetus for corporate responsibility. Credit unions are already heavily engaged in these types of activities because their members demand it. That is why members join their credit union, that is why 9 out of 10 credit union members are satisfied with their credit union[3] and that is why credit unions are an integral part of their communities.

Therefore, CUSCAL does not consider that a substantive need for legislative reform applicable to credit unions to mandate corporate responsibility exists - either a element of their directors' duties or in any other reporting or disclosure obligations under the *Corporations Act 2001*. If such reform is required due to an identifiable deficiency among non-mutual corporate entities then any amendments should target only these elements of the regulated-community.

More information
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[3] Eureka Strategic Research (2003)