

# Credit Union Industry Association (CUIA) submission

CAMAC discussion paper:  
*Corporate Social Responsibility (CSR)*

24 February 2006



**Credit Union**  
Industry Association

## Table of contents:

1. Recommendations	3
2. About Credit Unions	4
3. Observations	4
4. Credit Unions' Record on CSR	9
5. Conclusion	16

## More information:

Josh Moyes  
Adviser – Policy & Public Affairs  
Credit Union Industry Association (CUIA)  
(02) 8299 9033  
[jmoyes@cuscal.com.au](mailto:jmoyes@cuscal.com.au)

## 1. Recommendations

CUIA proposes the following recommendations:

- CAMAC should allow the regulated-community the freedom to continue to develop their own corporate social responsibility (CSR) initiatives and undertake voluntary disclosure in relation to those initiatives to their shareholders and other stakeholders.
- CAMAC should avoid mandating CSR activities or reporting, as this will impose further costs and burdens on credit unions and other entities that have already experienced significant regulatory compliance costs without effectively promoting the interest of non-shareholder stakeholders.
- If CAMAC does recommend applying hard regulatory rules on CSR, they should ensure that the existing experience and good practice of community-based mutuals like credit unions is appropriately considered such that they are not subject to these measures.
- A role remains for Government and the corporate sector, as well as others in the community, to continue to promote and encourage CSR initiatives.
- It is a function of Government to reduce regulatory burdens, as this occurs credit unions and other entities can redirect compliance resources towards more effective CSR activities.
- The focus of any recommendations should be on the adequacy and effectiveness of CSR initiatives by all organisations, and not merely those of the corporate sector.
- Government should also support the industry-based development of effective measurement of CSR activities.

## 2. About Credit Unions

For nearly 60 years credit unions have been delivering on a promise to be member focused, to offer fairer fees and to be part of their communities.

There are currently 155 credit unions across Australia. Collectively these credit unions are the 7<sup>th</sup> largest deposit-taking force in the market servicing over 3.6 million members. Credit unions range in size from \$3 million in on balance sheet assets to over \$5 billion – together the credit union sector is worth over \$32 billion in assets.

Credit unions are pioneers in innovation, such as opening the first ATM in Australia and delivering their services via online and mobile channels. By using these technologies as well as delivering on novel CSR initiatives, credit unions offer a different kind of banking to their communities.

CAMAC 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 (ADI) under the *Banking Act 1959* and subject to risk and capital adequacy obligations;
- regulated by AUSTRAC as cash dealers under the *Financial Transactions Reports Act 1988* and will be reporting entities under the expended Anti-Money Laundering and Counter Terrorism Financing (AML/CTF) legislation;
- subject to the *Uniform Consumer Credit Code (UCCC)*, which requires they be sensible to the needs of borrowers; and
- subscribers to a range of self-regulatory codes, including the *Credit Union Code of Practice* and the *Electronic Funds Transfer (EFT) Code of Conduct*. These codes set out the proper treatment for dealing with members, consumers and stakeholders.

Beyond these sector-specific regulations, credit unions are also covered by relevant trade practices, privacy, tax, industrial relations and general business regulation.

Credit unions have experienced considerable consolidation over the past decade. Despite growing total assets and member numbers, the number of credit unions operating in Australia has fallen dramatically from around 400 in 1990. Whilst some of this consolidation is a result of an evolving industry, at least part of the consolidation can be attributed to the significant compliance requirements placed on credit unions.

The impact of these compliance costs on smaller institutions like credit unions has been marked. Further, the related impact on competition and choice within the financial services market – together with the community cost of losing credit unions that often service rural and regional areas – is seldom considered in the policy process.

## 3. Observations

Credit unions have a long-standing involvement in corporate social responsibility (CSR) and there is likely significant under-reporting of these initiatives among the sector. In this context, CUIA believes it would be premature to undertake legislative reform without first establishing a clear deficiency among the regulated-community in terms of their contribution to and reporting of CSR activities.

CUIA believes before CAMAC recommends any measures to reform the *Corporations Act 2001* to mandate CSR activities or reporting, an assessment should first be made about current practice and how to respond, from a policy perspective, to any identifiable shortcomings.

Additionally, CUIA made a formal submission to the *Parliamentary Joint Committee into Corporations and Financial Services* review of *corporate responsibility* in 2005 – CAMAC was provided with a copy at that time. The PJC inquiry considered directors' duties under the *Corporations Act 2001* and substantially overlaps with CAMAC's *Terms of Reference*.

Both the PJC and CAMAC reviews consider whether directors should be required to include the views of non-shareholder stakeholders when making their corporate decisions. CUIA urges consistency and consultation between CAMAC and the PJC as these important issues are deliberated.

## 3.1 Definitions & Scope

The terms CSR, corporate responsibility and sustainability, among others, are often used interchangeably, but there is no common agreement on what each term means. Accordingly, the information that each corporation considers relevant in terms of CSR, to pick one term, will also vary, particularly between corporations of different sizes and industry base. Therefore, CUIA believes caution should be exercised as to the definition of CSR. A narrow definition could make identifying CSR unusually difficult with a limited range of activities being contemplated. More appropriate would be a wider definition, which considers instances of corporate activity broadly in terms of environmental, social, cultural and economic factors.

Further, credit unions believe there is a positive correlation between ethical business behaviour, embodied in CSR activities, with corporate performance. Credit unions are established on a 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 and through them the wider community 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 include:

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

For credit unions, each of these core values is reflective of their CSR in terms of their impact on the way credit unions relate to their members and the community. For example, many credit unions offer fee-free and unlimited 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 most 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 unions' members, who Cannex believe receive an estimated \$110 per year in extra member value, appreciate and seek out this difference.

In this context, CUIA urges CAMAC to consider a broad definition of CSR that reflects the extensive approach and experience of the credit union sector.

### 3.2 Sufficiency of Legal Framework

In the current environment, where industry drives the development and assessment of CSR, credit unions have been able to innovate and offer CSR 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 freedom to develop appropriate CSR initiatives is key to the meaningful relationship credit unions have with their 3.6 million members around Australia. CUIA urges CAMAC to ensure that any reform proposals do not adversely affect reliable and well-regulated credit unions, which already contribute significantly to their local communities.

Imposing special CSR measures on corporate entities presupposes a deficiency, which credit unions strongly refute. Without evidence to suggest credit unions (or other corporations) are failing in their commitment to CSR, any attempt to amend the *Corporations Act 2001* could result in additional costs to credit unions and, unintentionally, retard the promotion and development of CSR initiatives within the sector. This would be a poor outcome without delivering any material benefit for credit union members, consumers or the broader community who are all beneficiaries of the economic and social initiatives and commitment credit unions already make.

Further, the extensive regulatory framework covering the financial sector already adds a substantial compliance and operational cost to credit unions' business, which affects their ability to engage in CSR activities. CUIA believes mandating CSR measures within the *Corporations Act 2001* will add further compliance burdens and costs and adversely affect credit union's ability to develop, apply and harness their CSR initiatives. That is, if mutuals were subject to mandatory CSR 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 communities. It would also be inconsistent with the policy objectives being considered by CAMAC.

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.

Company directors have a primary responsibility to their corporations and through that 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 CSR for their shareholders and the community. Taking the interests of the company first, directors acting properly will think to the long-term, which can and often does include the company's 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 commercial approach and this is emerging within other parts of the corporate sector as well.

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 could 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 CSR initiatives towards compliance and reporting obligations and consequently constrain CSR innovation. On this basis, CUIA strongly opposes any provision in the *Corporations Act 2001* that require a credit union or its directors to have particular regard to the interests of other parties before the interests of their members (who are their shareholders). This is not a rejection of CSR, which is inherent to the credit union sector, but a reflection of the appropriate allocation of corporate duties, responsibilities and liabilities and the efficient use of limited resources.

CAMAC should note that credit unions' commitment to CSR is tied into their obligations to their shareholders. Even without a mandatory obligation within the *Corporations Act 2001*, credit unions continue to seek out and develop CSR initiatives as a matter of good business practice. Accordingly, under the current regulatory framework, CUIA does not believe the case has been made to support the assertion that the law inhibits corporations from making socially responsible decisions or decisions that account for non-shareholder stakeholders.

### 3.3 Promotion of CSR: A Role for Government & Industry

CUIA believes the lessening of regulatory costs, which is a function of Government and the subject of current Commonwealth<sup>1</sup> and State-based red-tape reviews, would be key to facilitating further CSR by credit unions and other entities. Therefore, CUIA urges CAMAC to adopt a wait and see approach. This will allow the corporate sector to continue its current trend of developing responsible practices and initiatives, a trend that is already part of credit unions' philosophy and corporate approach. This approach will also allow compliance reforms from the red-tape reviews to lead to regulatory savings and efficiencies, which will flow through to greater resourcing of CSR initiatives. Additionally, a wait and see approach will allow the various measurement tools (discussed at 3.4 below) to be 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 CSR activities.

Supporting this approach, Federal Industry Minister, Ian MacFarlane, commented in 2005 that the environmental conscience of shareholders should lead companies to adopt CSR practices. The Minister said *"the triple bottom line that shareholders expect these days should be more than enough incentive for companies to do what is basically the right thing."*<sup>2</sup> Other commentators have observed the role of Government is not to force corporations to be socially responsible but to facilitate and reward such behaviour<sup>3</sup>. Similarly, the Minister for Foreign Affairs, Alexander Downer, said in January 2006 that *"the corporate world increasingly realises it has to be responsible."*<sup>4</sup>

The motivation for CSR, in CUIA's view, should be one of long-term business benefits rather than compliance with an arbitrary regime imposed by Government or regulators. CUIA believes there are many leading businesses – including many credit unions – that have embraced CSR because it makes sense and through their awareness of the strategic opportunities it can provide. A voluntary, industry and stakeholder driven approach to CSR is therefore preferable.

This view is also aligned to the Government's comments in response to the proposed *Norms on the Responsibilities of Transnational Corporations and other Business Enterprises with regard to Human Rights*, developed by the *Sub-Commission on the Promotion and Protection of Human Rights* within the *UN Commission on Human Rights*. Writing in the context of international legal responsibility for human rights standards, the Government commented:

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<sup>1</sup> Consider the Prime Minister's and Treasurer's *Taskforce on Reducing the Regulatory Burdens on Business*

<sup>2</sup> Breuch J., *Minister places faith in shareholder conscience*, Australian Financial Review, 10/01/2006 at 5.

<sup>3</sup> Anderson G., *CSR opens new avenues to community*, Australian Financial Review, 10/01/2006 at 41

<sup>4</sup> Frew W., Freed J. & Peatling S., *Trust firms on climate, say leaders*, Sydney Morning Herald, 12/01/2006

*"The Australian Government is strongly committed to the principle that guidelines for Corporate Social Responsibility (CSR) should be voluntary ... We believe the way to ensure greater business contribution to social progress is not through more norms and prescriptive regulations, but through encouraging awareness of societal values and concerns through voluntary initiatives."<sup>5</sup>*

CUIA believes this international stance should be reflected in Australia's domestic policy position. This does not mean CUIA believes reforms to encourage Boards and their directors to consider CSR should not occur, but that such reforms should be voluntary and avoid unnecessary, prescriptive, costly and counterproductive regulatory measures.

### 3.4 Practical Implications: Measurement & Coverage

CUIA agrees CSR is not only the right thing to do but it should be measurable as being good for business as well. Unfortunately, measuring CSR is very difficult and current domestic and international attempts indicate this is an evolving process. For example, the Commonwealth Government's *Australian Research Council Linkage Projects* has provided a grant of funds to the *University of Sydney* and *CPA Australia* to develop a framework for managing and reporting non-financial information. Relevantly for this CAMAC 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* released its *Corporate Responsibility Index (CRI)*, which offers an alternative to hard and fast regulatory compliance by providing a mechanism for business to assess the responsibility and sustainability of their business practices against recognisable benchmarks. CUIA believes this budding area does not require heavy regulation and urges CAMAC to avoid recommendations that will apply statutory measurement or disclosure obligations, which may stifle these measurement techniques, when the ability to measure or assess compliance remains embryonic.

Despite these challenges, the credit union sector is actively seeking to develop tools of its own to monitor and report on CSR. Significantly, the *Credit Union Foundation of Australia (CUFA)* has developed a *Corporate Social Responsibility (CSR) Toolkit* for credit unions to frame their CSR activities. The *CSR Toolkit*, which will be formally launched in April 2006, links into the competitive attributes of community focus, social responsibility and mutual interest and will enable credit unions to learn about CSR, to capture their CSR activities and to generate sustainability reports. The *CSR Toolkit* is aligned to the *Global Reporting Initiative's (GRI)* international reporting framework.

CAMAC should note that mandating CSR under the *Corporations Act 2001* would capture a great many companies across Australia but it would not reflect the wealth of CSR activities being conducted by not-for-profit and other organisations not presently regulated by the *Corporations Act 2001*. Equally, it would not require CSR 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 CSR initiatives and reporting by all organisations, and not merely those of the corporate sector.

This lack of consistency would undermine the effectiveness of a CSR 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 competitive disadvantage by imposing extra CSR-based costs without necessarily delivering material benefits to the broader community.

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<sup>5</sup> AAR, 'Update on the Australian Government's corporate social responsibility inquiries', Focus – Corporate Governance – November 2005, located at <http://www.aar.com.au/pubs/ma/focgnov05.htm>.

Developing CSR practices or benchmarks for corporations to provide useful reporting against is also difficult due to the general infancy of these activities and the variances between different corporations as to their understanding and application of CSR. CUIA is concerned that applying a disclosure regime to account for CSR could simply produce an extra and costly compliance burden that does not meet the needs or expectations of non-shareholder stakeholders. This would also work as a disincentive to engage in further CSR innovations.

As a final thought on reporting and disclosure, the recent admission by ASIC in relation to the effectiveness of their FSR disclosure regime in terms of consumer understanding and value are timely. ASIC's Deputy Chair, Jeremy Cooper stated:

*"...most investors simply don't understand the information in disclosure documents;"<sup>6</sup>*

Accordingly, CUIA believes additional disclosure should be encouraged but not prescribed. This will allow corporations to respond to the demands of their shareholders, members and other stakeholders in terms of their CSR activities and reporting.

## 4. Credit Unions' Record on CSR

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

The following are only selected case studies and commentary relating to credit unions' commitment to CSR. These are just an example of the range of CSR initiatives credit unions achieve under the current legislative and reporting framework. It is precisely these types of initiatives that could be at risk if credit unions were required to re-direct their limited CSR resources towards mandatory CSR compliance and reporting.

### 4.1 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: [www.regionalone.com.au](http://www.regionalone.com.au)*

Another example is *WAW Credit Union*, which supports an annual community fundraising campaign for the local hospital network.

*WAW Credit Union reversed the word 'hospital' when conceiving 'Latipsoh Day' in 2001. This annual community fundraising campaign is designed to raise funds for the regional hospital network. The network comprises 11 local hospitals spanning from Culcairn to Yackandandah, which provide essential health services for WAW Credit*

<sup>6</sup> Garnaut J., 'ASIC says disclosure rules not working', Sydney Morning Herald, 06/02/2006 at 19

*Union's regional members. The funds raised during the campaign are used to help each hospital to improve their facilities and purchase much needed equipment.*

*WAW Credit Union formed a committee from its administrative staff to help with the paper work involved in co-ordinating Latipsoh activities. Working alongside other major sponsors, WAW Credit Union enlists the help of hospital management and staff and the local community to co-ordinate this critical fundraising event.*

*The member for Farner, Mrs Susan Ley observed that it is essential people recognised the crucial role hospitals play in the community and she believes that "Latipsoh day helps highlight the importance of community support to keep these services viable." <sup>7</sup>*

A further example is *Savings & Loans Credit Union's* support of the annual Christmas Pageant in South Australia as well as their contribution – leveraged off a retail credit card product – 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. See <http://www.cupageant.com.au> for more information.*

*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>*

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.

## 4.2 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, Waruwi, 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:

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<sup>7</sup> Ley S., 'Nothing backwards about this appeal to the community', Wodonga Regional health Service located at <http://www.wrhs.org.au/news/2003812474.htm>

*“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 Australia Credit Union (FNACU) 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.

FNACU provides culturally appropriate financial services to over 3,000 Aboriginal and Torres Strait Islander members across Australia. Wherever possible, FNACU employs and trains Indigenous people as staff, managers and directors – currently 70% of FNACU staff is Indigenous. FNACU developed the *My Moola* booklets on budgeting and saving<sup>8</sup>. Demonstrating the success of this publication, a subsequent series of *My Moola* financial literacy materials were produced by ASIC.

The importance of providing 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 and literacy materials.

TCU and FNACU are prime 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, has also acknowledged the important role and contribution of TCU and FNACU.

### 4.3 Providing Services in No-Bank Locations

Credit unions, through Cuscal, and the Commonwealth Government undertook a joint *CreditCare* project from 1995 to 2000. This project aimed to maintain and develop banking and 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 remained 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.

Building on the success of the *CreditCare* project, the wider *Regional Transaction Centres* (RTC) program was established by the Commonwealth Government with a focus on small towns and communities. Each RTC under the scheme offers basic financial services,

<sup>8</sup> [http://www.firstnations.com.au/Tips\\_Advice/mymoola.asp](http://www.firstnations.com.au/Tips_Advice/mymoola.asp)

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.

## 4.4 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 presence.

*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 assist 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 population an ability to be engaged in their country's emerging financial sector.*

*CUFA's current microfinance projects involve:*

*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)*

*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*

*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.*

*In 2004, CUFA partnered with FutureStaff, a registered training organisation, to develop 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.*

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

*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.*

Another example is *Berrima District Credit Union's BDCU Community Fund and Children's Fund*.

*Berrima District Credit Union established the BDCU Community Fund to encourage philanthropy in Berrima's community. Through consultation with other community groups, the Fund has focuses on youth affairs and giving back to the community.*

*The Fund has raised enough money to:*

- *pay for a part-time youth worker in the area;*
- *provide a youth oriented website; and*
- *establish a local youth radio station.*

*Following the success of the Community Fund, BDCU created their own Children's Foundation to assist in raising money for the redevelopment of the children's ward at the local hospital and to provide ancillary support services for the children on the ward and their families.*

*The board of the Children's Foundation comprises of members of the local community and employees of BDCU creating an active and ongoing relationship between the two.*

*Further, BDCU allows local community groups to use its boardroom facilities free of charge to hold meetings and for social occasions. All of these activities not only help the local community but also provide a way for other members of the community to get involved in philanthropic activities.*

*St. Mary's Swan Hill Credit Union's contribution during 2005 of \$20,000 to various community groups such as the Red Cross, Swan Hill Bowls Club, Swan Hill Agricultural & Pastoral Society, Swan Hill & District Cricket Association and Swan Hill District Hospital is another example<sup>9</sup>.*

## 4.5 Environmental Consciousness

A number of credit unions offer products and services that are environmentally responsible. 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.*

*They do this in partnership with Greenfleet by planting and maintaining 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*

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<sup>9</sup> Information obtained from Ken Mutton (General Manager), St. Mary's Swan Hill Credit Union, [kmutton@stmarysco.com.au](mailto:kmutton@stmarysco.com.au)

*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.*

*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.*

*The "Cool Home Loan" has been developed in conjunction with the Queensland Conservation Council as part of the Cool Communities initiative. For more information see: <http://www.malenycu.com.au/coolhome.html>*

## 4.6 Microcredit

As part of their commitment to CSR, 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's Boomerang Grant Scheme*, which was the recipient of a *2005 NSW Fair Trading Award*<sup>10</sup>.

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<sup>10</sup> <http://www.fairtrading.nsw.gov.au/awards/einfeldawards.html>

*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 the community should be carefully considered before legislative reforms are introduced that could, perhaps inadvertently, retard the development of these 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 CSR activities as a result of undue compliance and cost burdens associated with identifying and reporting CSR initiatives.

## 4.7 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. CUIA 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 its *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.

Other examples of credit unions role in financial literacy include:

*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 *Financial Literacy Foundation*). CAMAC 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 this type of CSR activity within the bailiwick of the *Corporations Act 2001*.

## 5. Conclusion

For much of corporate Australia, CSR remains in its infancy in terms of what it means and what should be left to corporations to voluntarily disclose and what may need to be mandatory. But for credit unions, CSR has been part of everyday business for nearly 60 years.

CUIA believes the uncertainties in terms of CSR itself, measuring and assessing signal the need for further investigation on the specific benefits to shareholders, markets and other stakeholders of an active CSR activity and reporting regime when weighed against the compliance costs and potential dilution of available funds. This review by CAMAC, following the earlier discussion by the PJC, is a step in the right direction in terms of exploring what CSR means and how it can best be promoted and communicated.

As mutuals, credit union directors' responsibility to their shareholders is not driven purely by a profit motive like other corporations, but is based on delivering fairer fees to members and engaging with their local community. CUIA believes, consistent with current law, it is up to shareholders to provide the impetus for CSR.

Credit unions are already heavily engaged in CSR activities because their members demand it. That is why members join their local credit union, that is why credit unions consistently receive high satisfaction rates with their member surveys<sup>11</sup> and that is why credit unions are an integral part of their local communities.

Therefore, CUIA rejects the need for legislative reform applicable to credit unions to mandate CSR as either an element of the directors' obligations or in terms of 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 those amendments should target these elements of the regulated-community alone.

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<sup>11</sup> Eureka Strategic Research (2003)