



Abacus
Australian Mutuals

Association of Building Societies and Credit Unions

16 April 2010

Mr Stephen Palethorpe
Secretary
Senate Standing Committee on Environment, Communications and the Arts
eca.sen@aph.gov.au

Dear Mr Palethorpe

Inquiry into Green Loans Program

Thank you for your invitation to *Abacus – Australian Mutuals* to make a submission to the Committee's inquiry into the Green Loans Program.

Abacus members were significant participants in the Green Loans Program (GLP). When the program was changed on 19 February 2010, our members made up 21 of the 24 Financial Partner institutions, either offering or registered to offer the product.

Despite bringing to the Department's attention, on a number of occasions, a range of problems with the GLP that we believed needed attention to improve the program, Abacus was particularly astonished at the government's announcement to discontinue the 'loan' component of the Green Loan Program. We believe that despite our members acting in good faith, in accordance with the Government's requirements for the scheme, and investing significant resources into the GLP, Abacus members have been neglected in the reforms to this environmental program.

Please contact me 02 8299 9053 or Matt Gijselman on 02 8299 9048 to discuss any aspect of this submission.

Yours sincerely

MARK DEGOTARDI
Head of Public Affairs

Abacus – Australian Mutuals is the industry body for customer-owned financial institutions, representing 105 credit unions, 9 mutual building societies and 25 friendly societies. Our member institutions serve 6 million Australians and hold total assets of \$70 billion.

Credit unions and mutual building societies are Authorised Deposit-taking Institutions (ADIs) regulated by APRA under the *Banking Act 1959* and provide a full range of retail banking services.

Mutual banking institutions are active participants in their local communities, and many engaged with the GLP as a further example of their commitment to their members and their local communities rather than external shareholders.

At their request, officials from the Department of the Environment, Water, Heritage and the Arts attended and addressed an industry event for Abacus members on 8 September 2008 to promote the benefits of becoming a Financial Partner for financial institutions.

On 24 February 2009, Minister for the Environment, Heritage and the Arts, the Hon Peter Garrett AM MP, wrote to Abacus personally encouraging our members to participate in the GLP, "one of the Government's central energy efficiency measures".

That correspondence said, in part:

The [GLP] helps home owners and renters to overcome two major barriers to more efficiently use energy and water in their homes

- 1. Many do not know where to start – the tailored Green Loans report will help them understand the most effective changes they can make; and*
- 2. Many do not have the upfront capital to make effective changes – the program will provide a subsidy to significantly reduce the cost of finance for households to undertake the recommended changes.*

That correspondence also noted that:

Green Loans will include joint promotional opportunities and badging and recognition policies to ensure partners are able to promote their participation in the program...[Participation] presents an opportunity to be involved in a program which will stimulate an emerging market in green renovation activity and encourage an estimated \$2 billion in green-inspired investment.

Some 12 months later, the Government had reduced expectations from the original 200,000 Green Loans expected to be made available under the program to 75,000 loans, and then nil.

Program design issues

Abacus engaged regularly with departmental officers after their attendance at our industry event in September 2008. Following on from the Minister's correspondence, and additional communications from departmental officials, a total of 21 Abacus members either offered the product, or had registered to offer the product, when it was announced that the loans component would be removed on 19 February 2010.

On behalf of our members, Abacus played a proactive role in working with the Department to address what we believed were a number of program design faults, particularly in relation to the design and operation of the interest rate subsidy. In essence, the Department set this subsidy at the cash rate plus 5 percent.

Primarily, Abacus members were concerned at the time that the basic design of the interest rate subsidy for the program had been undertaken without industry consultation, and that when industry consultation did occur, the basic elements of the subsidy were not open to negotiation. What this led to was an interest subsidy that required Financial Partners to provide an unsecured loan at a large discount to usual unsecured rates, with no flexibility to alter the rates

or charges. This meant that Financial Partners carried the additional risk and capital cost for the loans, which in hindsight considering later events, have borne out in terms of sovereign risk.

Operation of the program

As noted, Abacus members comprised 87.5 percent of the GLP Financial Partners. Abacus members also wrote the majority of loans under the GLP and provided the majority of funding for Green Loans to the community. We have been advised by some of our members that prior to the conclusion of the loan component they had provided hundreds of Green Loans worth hundreds of thousands of dollars.

For some Financial Partners, their participation in the Green Loan Program was to be their major marketing campaign over the next few years. Significant resources go into developing a new financial product, including:

- staff training and development,
- additional human resources to manage applications and communications,
- systems development and implementation,
- legal and compliance, and
- marketing and promotion.

The development of these products can be a complicated process, and Financial Partners invested heavily in supporting the Government's energy efficiency priorities despite the risks outlined regarding the interest rate subsidy.

However, disappointingly, Abacus is advised that the Departmental officials who were charged with managing the program once it had commenced were often not able to support the needs of Financial Partners.

- Abacus was advised that communications between the Department and Financial Partners was sporadic and poor. Contact details for the GLP officials often changed without notice, telephone contact numbers were often forwarded to the switchboard, and often messages were not returned at all.
- The proposed regular newsletter between the Department and Financial Partners was not published once until after the program's cancellation had been announced.
- The marketing and communications that the Department undertook was clearly inadequate to support the promotion of the loans component of the GLP, and no clear media communications strategy was implemented to promote the campaign and correct misinformation – including from assessors themselves who often stated that loans were pre-approved for households after their inspection was completed.
- Approval from the Department for marketing material and co-branded communications was too slow to be useful, or was not forthcoming at all.
- Distribution of finished and approved home assessments from the Department to Financial Partners was so slow as to significantly hinder their efforts to promote and distribute the product.

These issues were of significant concern for Financial Partners; however of more concern for many Abacus members was the completely inadequate invoice payment system for their participation. Some Financial Partners during the life of the GLP were not paid for the loans they had provided for months, despite providing the necessary information to the Department. Abacus is advised that in most cases, institutions did not receive any of their funding between October 2009 and February 2010 when the loan component of the program was withdrawn.

Abacus is advised that in some instances, Financial Partners were advised that the delay in payment was due to the fact that the Department had changed administration arrangements, and the associated forms, without informing them.

Abacus advised the Government on a number of occasions of our concerns with the GLP, including to The Treasury as part of our pre-Budget submission.

Conclusion

The commitment by Abacus members to the GLP reflected an existing commitment to sustainability measures for many institutions. In some cases, Abacus members spent hundreds of thousands of dollars developing and implementing their Green Loan product. This investment is now lost, and it is unlikely that they will be given an opportunity to recoup those costs.

The cancellation of the GLP has left many institutions out of pocket, which in the case of mutuals means a direct impact on their members. These institutions have also often suffered significant brand damage as a result of the Government's decision to remove the loan component from the GLP.

Many Financial Partners have expressed a strong reluctance to be involved in similar Government programs in the future. Despite this, Abacus believes that there are concrete measures that the Government should investigate to support those institutions which invested in the GLP.

Abacus believes that the Government should:

Support marketing for environmental financial products if they are offered by former Financial Partners. Many Financial Partners already offer other financial products that are good for the environment. The Government should investigate ways to promote these products, either through a website register of product providers, or through joint funding and co-branding of marketing materials

Provide a vehicle that can achieve a lower cost of funds with Government support. This vehicle could provide former Financial Partners to draw down a lower interest rate facility to support the Government's energy efficiency goals. This vehicle could be limited to former Financial Partners, and could enable these institutions to provide low interest rate personal loans to the community to fund the activities identified by the assessments provided through the revised Green Loan Program.

We look forward to working with the Government to further explore these opportunities.

16 April 2010