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Association of Building Societies and Credit Unions

Abacus
Australian Mutuals

7 July 2010

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

Dear Mr Palethorpe

Supplementary submission for committee inquiry into Green Loans Program

Abacus appreciated the opportunity to appear on 29 June 2010 for the Committee's inquiry into the Green Loans Program.

During our appearance, Abacus undertook to provide the Committee with additional information relating to two matters, namely:

- *Whether we had received correspondence from the Department of the Environment, Water, Heritage and the Arts prior to September 2008.* As noted during the hearing, representatives from the Department presented at an Abacus industry event in September 2008. Initial contact from the Department relating to their request to present to the mutual ADI sector occurred during mid-August 2008.
- *Provision of our pre-Budget submission to the Government, and correspondence from Abacus to the Government relating to the Green Loans Program dated 15 February.* Copies of the requested documentation are attached.

Additionally, the committee may be interested in reviewing some of the sustainability-related loan products currently offered by Abacus members. This information is attached also.

Yours sincerely

MARK DEGOTARDI
Head of Public Affairs

Attachment: Selection of sustainability-related loan products offered by Abacus members

Big Sky Credit Union Ltd EnviroLoan
http://www.bigsky.net.au/EnvironmentalLoan

Community First Credit Union Green Loan
http://www.communityfirst.com.au/default.asp?page=/loans/green+loans

Country First Credit Union Enviro First Car Loan
http://www.countryfirst.com.au/loans-enviro-first-car-loan.html

Electricity Credit Union Eco Friendly Car Loan
http://www.ecu.com.au/index.php/loans/personal-loans/223-eco-friendly-car-loan

Horizon Credit Union Environmental Loan
http://www.horizoncreditunion.com.au/loans-environmental-loan.html

Hunter United Employees' Credit Union Ltd Green Saver Loan
http://www.hunterunited.com.au/products-services-loans-green-saver-loan.html

Laboratories Credit Union Limited Green Loan
http://www.lcu.com.au/loans-personal-loans-green-loan.html

MCU various products
http://www.mcusb.com.au/loans/

mecu Ltd various products
http://www.mecu.com.au/borrowing/loans/overview.html

Melbourne University Credit Union Limited Green Loans
http://www.mucu.com.au/green.html

Nova Credit Union Nova Green Loan
http://www.novacu.com.au/green.pdf

Queensland Country Credit Union Eco Smart Loans
http://www.qccu.com.au/eco-smart-green-loans

Queensland Professional Credit Union Ltd Green Personal Loan
http://www.qldprofcu.com.au/loans.html#personalLoans

Select Credit Union Ltd Green Personal Loan
http://www.selectcu.com.au/loans-green-loans.html

SGE Credit Union Limited Go Green Car Loan
http://www.sgecu.com.au/Loans/gogreencarloan.asp

South West Credit Union Co-operative Limited Enviro Loan
http://www.swcredit.com.au/loans-personal-loans-enviro-loan.html

Summerland Credit Union ECO Loans
http://www.summerland.com.au/borrowing/eco-loans

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Association of Building Societies and Credit Unions

Abacus
Australian Mutuals

15 February 2010

The Hon Peter Garrett AM MP
Minister for the Environment, Heritage and the Arts
Parliament House
CANBERRA ACT 2600

Dear Minister

Green Loans Program

Credit unions and mutual building societies have been strong supporters of the Australian Government's Green Loan Program (GLP), comprising 14 of the 16 associated financial institutions. This strong representation in the GLP is reflective of the strong community focus of Abacus members - not to generate profits for shareholders but to serve the interests of their members and their communities.

Abacus – Australian Mutuals is the industry body for customer-owned financial institutions, representing 105 credit unions, 9 mutual building societies and 25 friendly societies. Abacus 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 consumer banking services.

Our members' strong preference is for an effective GLP, and we want to work constructively with Government to help achieve this outcome.

There are a range of measures that can be taken by the Government to improve the GLP, outlined below. Credit unions and building societies are concerned that the benefits for the Australian community that flow from the Green Loans may be at risk from an Australian Government decision to end the program prematurely in the face of problems associated with the assessment phase of the GLP.

GLP Financial Partners have dedicated significant staff, financial and other resources to developing this product – and it is vital that they are afforded an opportunity to recoup those costs through the life of the program.

Detailed below are issues faced by credit unions and building societies in implementing the GLP, together with some suggested solutions to improve the effectivness of the program.

Payment issues must be resolved as a priority
Our members have advised that there are extensive delays in paying the Financial Partners the interest subsidy associated with their offering of Green Loans. This is clearly not acceptable.

There are clear opportunities to improve the quality of the administration of the program , including more efficient payment of subsidies and removing superfluous administration requirements.

GLP Financial Partners have promoted and invested in the GLP. It is difficult to remain committed to the GLP, considering the extensive administrative delays that are adding to funding risks already incurred by them.

Communications to Financial Partners
Our members have also reported significant difficulties when dealing with Green Loans departmental officials. These include unavailability of staff and general lack of information being provided to Financial Partners.

A particularly acute problem is an inability to have marketing material approved, which has a direct impact on the ability of Green Loan providers to promote their products.

Abacus urges the Government and the Department to allocate sufficient resources to ensure that Financial Partners can effectively promote and roll out Green Loans.

Other issues with the program
Credit unions and building societies have raised a number of other concerns with the program, including:

- Insufficient constraints on loan disbursements resulting in loans being funded direct to borrowers rather than requiring disbursements to approved contractors and suppliers;
- Disappointment at the Government's cuts to the GLP announced last year and concerns that financial institutions will not be able to recoup their investments in the scheme;
- Limitations on the loan interest rate subsidy and the disincentives for financial institutions to fund green loans (at lower rates than other loan products).

Credit union and building society participants in the GLP remain keen to support the program and are by far the largest funder of green loans under the scheme to date. We want this scheme to work, both for the benefit of our customers and our institutions. Our strong view is that shortcomings in the scheme must be addressed and we seek an urgent meeting with you to discuss these concerns.

We will contact your office shortly to ascertain your availability for a meeting. In the meantime, if you would like further information on any of the issues raised in this correspondence, or to discuss the engagement of Abacus members in the Green Loans Program, please contact me directly on Matt Gijselman from Abacus Public Affairs on

Yours sincerely

[signed]

MARK DEGOTARDI
Head of Public Affairs

cc Ms Robyn Kruk, Secretary, Department of the Environment, Water, Heritage and the Arts

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Association of Building Societies and Credit Unions

Abacus
Australian Mutuals

29 January 2009

Mr Jason Harris
Budget Policy Division
Department of the Treasury
Langton Crescent
PARKES ACT 2600
By email: prebudgetsubs@treasury.gov.au

Dear Mr Harris

***Abacus – Australian Mutuals* 2010-11 Budget Submission**

Abacus – Australian Mutuals appreciates the opportunity to submit our ideas and priorities for the 2010-11 Budget.

Abacus 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 consumer banking services. Friendly societies provide investment and insurance services to members to assist in planning for life events. Most societies are registered under the *Life Insurance Act 1995* and regulated by APRA.

Please contact me on 02 8299 9053 or mdegotardi@abacus.org.au to discuss any aspect of this submission.

Yours sincerely

Mark Degotardi

MARK DEGOTARDI
Head of Public Affairs

EXECUTIVE SUMMARY

It is crucial for Australian consumers that more competitive pressure is brought to bear on the major banks. Consumers are already paying the price of diminished competition as major banks have seized the opportunity to fatten their margins.

Smaller banking institutions – in particular, the mutual banking sector - can help keep the major banks honest, if Government adopts a range of pro-competitive policy measures.

These include:

- Maintaining and improving access to funding by smaller banking institutions;
- Fairer taxation of deposits held by ADIs;
- Removing structural inequities in the application of the GST reduced input tax credits (RITCs) to mutual ADIs;
- Promotion of the prudential regulatory framework and the capacity of consumers to exercise choice.

Abacus urges the Government to make a statement about competition in retail banking in the Budget.

The mutual banking sector – credit unions and mutual building societies – has proven its strength and stability during the global financial crisis and is positioned to increase its share of lending and deposits, if the right policy settings are implemented.

Increased consumer awareness about the prudential standing of all authorised banking institutions and about enhanced account portability will deliver a much-needed competitive stimulus to the retail banking market.

Abacus also calls for fairer taxation of deposits, retention indefinitely of the $1 million per-depositor cap in the Financial Claims Scheme and a revamp and relaunch of First Home Saver Accounts.

The Government should use its review of the GST financial supply provisions to update and revitalise measures taken to ensure that smaller financial institutions are not unfairly burdened by GST input taxing. GST RITCs were introduced to address the bias to in-source certain acquired inputs. This bias favours large banks with the capacity to in-source. Credit unions and building societies do not have this capacity. Abacus seeks an amendment to the existing RITC item 16 "Credit union services" so that the item covers mutual building societies and mutual friendly societies as well as credit unions.

This Budget submission also outlines proposed measures to:

- encourage savings for post-compulsory education;
- encourage savings for health insurance;
- establish a national free or low-cost debt counselling service;
- enhance the Green Loans Program.

COMPETITION IN RETAIL BANKING

The state of competition in the retail banking market demands further public policy action.

"The Australian banking market is now, by some criteria, the most concentrated it has been for a century," according to the Senate Economics Committee.[1]

ACCC chair Graeme Samuel concedes there is not much he can do about it. Mr Samuel admits there is less competition and "generally when you've got less competition you'll have higher prices being charged" but that the "only thing the ACCC can really do in this area is to deal with mergers."[2]

Mr Samuel's predecessor as ACCC chair, Allan Fels, has expressed fears of a "prolonged period of limited competition" in banking and that "it will be years, if not decades, before the harm to competition is undone."[3]

Major banks' margins have widened over the past year or so and, according to the RBA, they are now about 20 basis points above pre-crisis levels.[4]

Many of the former competitors to the major banks are now major bank brands (e.g. St George, Bankwest, Aussie Home Loans, RAMS, Wizard). Non-ADI lenders have exited the market or are on life-support thanks to the AOFM program to invest in RMBS.

Barriers to large scale national entry for retail banking products are high.[5]

Westpac's confidence about its position in the market was asserted by its 1 December 2009 decision to lift its standard variable mortgage rate by 45 basis points.

A string of Parliamentary inquiries in 2009 have urged a response to the deteriorating competitive environment.

"Close consideration needs to be given to shifting the balance between stability and competition back toward the latter as conditions improve." – Senate Inquiry into Deposit and Wholesale Funding Guarantee.[6]

"Given the vital role that mutual financial institutions contribute to competition in the financial sector, the Government should engage with the mutual sector to ensure legislation and regulation is consistent with assisting the sector to continue to grow and remain on a competitive playing field with the 'big four' banks." – ALP members of the Senate Inquiry into Bank Mergers.[7]

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[1] Senate Economics References Committee, Report on Bank Mergers, September 2009

[2] Graeme Samuel interview, ABC TV *Inside Business* 6 December 2009

[3] *Power of big four harmful, say Fels,* The Australian, 1 Aug 2009

[4] RBA Deputy Governor Ric Battelino, speech, 16 December 2009

[5] Public competition assessment, 'Westpac Banking Corporation – proposed acquisition of St George Bank Limited', ACCC 13 August 2008

[6] Senate Economics References Committee, Report on FCS, September 2009

[7] Senate Economics References Committee, Bank Mergers, Sep 2009

"Given the degree to which regional Australia relies on mutual ADIs, the Committee is concerned about the potential for decreased competition in the regional banking sector." – House of Representatives Inquiry into Impact of GFC on regional Australia.[8]

"The goal of discouraging banks from unduly increasing interest rate margins at the expense of homebuyers can be better achieved by measures to make the market more competitive, such as the recent initiative by the Government to facilitate customers moving between banks." – Senate Inquiry into Banking Amendment (Keeping Banks Accountable) Bill 2009.[9]

The Guarantee Scheme for Large Deposits and Wholesale Funding has disproportionately benefited the major banks. The Guarantee Scheme's unfair fee structure, imposing an 80 basis point penalty on smaller ADIs, explains why smaller ADIs have been unable to take advantage of the scheme and why the bulk of the $156.2 billion of guaranteed funding is held by the major banks.

Abacus sees a strong case for a small fraction of the $982.6 million in Guarantee Scheme fees paid as at November 2009 to be diverted to policy measures to promote competition.

APRA chairman John Laker told the 2009 Abacus convention that: "The Australian community, perhaps more than ever, wants genuine choice in its financial services but an assurance, at the same time, that its financial institutions can stay the course. Mutuals know now, after two years in battlefield conditions, they can provide that assurance and offer that choice."[10]

The competitive potential of the mutual ADI sector is underlined by:

- an 11.5 per cent share of the household deposits market;
- an 8 per cent share of the new owner-occupier home loan market;
- having more branches than the Commonwealth Bank; and
- its record of consistently and strongly outperforming the major banks in customer satisfaction ratings.

Abacus urges the Government to make a statement in the Budget about competition in retail banking. Our prescription for increasing competitive pressure on the major banks includes:

- Promotion of the prudential regulatory regime and therefore the prudential standing of smaller ADIs;
- Empowering consumers to make more informed choices; and
- Maintaining and improving access to funding for smaller ADIs.

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[8] House of Representatives I,T, RD & LG Committee, Impact of GFC on Regional Australia, Nov 2009
[9] Senate Economics Legislation Committee, Banking Amendment (Keeping Banks Accountable) Bill, Nov 2009
[10] Mutuals after turbulent times, John Laker, APRA, 9 Nov 2009

INFORMED MARKETS, INFORMED CONSUMERS

Competition is needed to drive efficiency, innovation and productivity. Competition depends on effective consumer choice. Informed consumers are empowered and motivated consumers.

Abacus sees a strong case for better informing consumers about the retail banking market.

It is frequently observed that banking relationships are characterised by tremendous inertia, that there is no real choice, and that all lenders and deposit-takers are the same.

In fact, retail banking consumers do still have considerable choice beyond the four major banks, despite the exit of some lenders.

The reluctance of home loan borrowers, for example, to choose a lender other than a major bank is costing them hundreds of dollars a month.[11]

Abacus contends that this amounts to market failure and Government intervention is required to change perceptions and better inform consumers.

"Irrational decision-making that results in poor choices thus may warrant government intervention if such intervention effectively improves consumers' choices and the costs of intervening are lower than the benefits," says Consumer Affairs Victoria.[12]

A decade since the implementation of the Wallis Inquiry recommendations put deposit-takers (i.e. banks, building societies and credit unions) on an equal regulatory footing, Abacus members still regularly encounter perceptions that banks are safer than other ADIs.

This chronic problem threatened to become acute during the widespread community anxiety about the safety of the financial system with the deepening of the global financial crisis in the second half of 2008.

It was quite clear from the public debate at that time that Australia's prudential regulatory framework for deposit-taking is not well understood by so-called experts and is therefore likely to be barely apprehended by most consumers.

Abacus recognises that our own industry needs to work more effectively and co-operatively to increase our market recognition and consumer awareness. However, we are competing against enormous businesses with colossal marketing budgets that benefit from entrenched misconceptions about the prudential regulatory framework.

One of the factors behind the 'flight to quality' by borrowers was the performance of "non-bank lenders" – the category of lender financed entirely from wholesale markets – that were unable to lower mortgage rates in line with moves in official rates.

Unfortunately, mutual ADIs suffer collateral reputational damage when lumped in with the "non-bank lender" category.

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[11] 'Be promiscuous with banks' SMH, 13 Jan 2009; 'Homebuyers and mortgage holders can save hundreds of dollars a month', AAP, 8 Jan 2009

[12] *The problem of incomplete information – a theoretical perspective*. Consumer Affairs Victoria, March 2006

A "non-bank" lender - RHG Ltd, the successor to RAMS Home Loans - is reportedly "charging customers the highest standard variable interest rate on the market as it runs down its mortgage book."[13]

ASIC's 2008 review of mortgage switching fees found that non-ADI lenders had the highest exit fees and highest early termination fees.[14] "Non-bank lenders" are reported to be the most litigious and "ruthless" lenders.[15]

Another class of entities that engage in banking business but are not subject to prudential regulation is the church fund category. Religious charitable funds compete with ADIs, providing deposits, loans and transaction accounts. APRA lists 55 religious charitable funds in a class exemption from the requirement to be authorised under the *Banking Act 1959*. These entities use retail banking language to describe retail banking products and services but they are outside the retail banking consumer protection and prudential regulatory frameworks.

Abacus proposes that a pro-competitive public awareness campaign about the prudential regulatory framework and the prudential standing of ADIs should be accompanied by retirement of the clumsy term "Authorised Deposit-taking Institution".

The term ADI should be replaced by "Authorised Banking Institution".

Credit unions and mutual building societies, as customer-owned institutions, obviously value their distinct identity from banks but the reality is the terms "bank" and "banking" are well understood in the community. The term "ADI" is not well understood a decade after it entered the statute books.

"Banking" is what all ADIs do, the activity of raising deposits to fund loans that are kept on the balance sheet, while the term "bank" is currently reserved for ADIs that have more than $50 million in Tier 1 capital. There are 27 mutual ADIs that have at least $50 million in Tier 1 capital but none have so far applied to call themselves a "bank". The $50 million hurdle has been in place since 1992 and was originally designed as a "means of discouraging unsuitable shareholders from attempting to gain a banking authority."[16]

Employing the term "banking" explicitly in the official regulatory description of licensed banking industry participants will enhance the effectiveness of the public awareness campaign.

The campaign would require the active support and participation of APRA, ASIC and the ACCC.

Integral to raising public awareness about the breadth of choice available to consumers in the retail banking market is promotion of the capacity to switch accounts. Awareness of the existing transaction account switching package is clearly quite low. Although the measures have now been formally mandated in the EFT Code of Conduct, there has been no sustained public awareness campaign.

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[13] 'Hefty mortgage rate enrages lender's captive customers' SMH, 23-24 Dec 2009

[14] Credit unions and building societies had the lowest exit fees, the lowest early termination fees and the lowest annual service fees.

[15] 'Pay up or move out', Daily Telegraph 8 Dec 2009

[16] RBA submission to Wallis Inquiry, 1996

A credible customer mobility regime will force the major banks to offer better deals or lose customers. The current switching package should be more effectively promoted and further policy measures should be considered. These might include changes to identity verification procedures, subject to due recognition of fraud and AML/CTF risks.

Abacus urges the rapid implementation of an effective communication strategy with the following key features:

- Available — those that use the information and those that provide the information need to be able to access it readily.
- Accurate — content of the information needs to be correct.
- Clear — a critical element of any information campaign is that its messages are readily understood by those using it.
- Trusted —source of the information and the integrity of the processes for assuring its accuracy are important.
- Used — simply providing consumers with clear, accessible information, even if they are confident of its accuracy, may be insufficient to generate the changes consumer policy is seeking. Consideration also needs to be given to whether the information is affecting the way people behave.[17]

Increased consumer awareness about the prudential standing of all authorised banking institutions and about enhanced account portability will deliver a much-needed competitive stimulus to the retail banking market.

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[17] *Information Provision and Education Strategies* Consumer Affairs Victoria March 2006

ACCESS TO FUNDING

Competitors to the major banks require access to stable, reliable and diverse funding sources.

Existing and potential new funding sources for mutual ADIs are:

- Household and institutional deposits (including First Home Saver Accounts, Retirement Saving Accounts and Farm Management Deposits);
- Securitisation; and
- Other forms of retail and wholesale funding.

Deposits

Ease tax burden

Deposits are overwhelmingly the main source of funding for building societies and credit unions. Deposits are the most heavily taxed savings vehicle and the impact of this over the long term is the steady decline of deposits as a share of savings.

In 1990, more than 30 per cent of the total value of financial asset holdings of Australian households was held in the form of deposits with Australian ADIs. By mid-2007 that share had fallen to 18.5 per cent. This steady trend was interrupted by the global financial crisis but there are signs it is already resuming.

The RBA observed recently that the deposit funding share of banks has stopped rising and that "banks have largely exhausted the available opportunities to induce investors to increase their holdings of bank deposits."[18]

Measures to ease the taxation burden on household deposits would increase the size of the deposits 'pie' for all ADIs.

As outlined in our submission to the Henry Review, those bearing the brunt of the high real tax rates on interest earnings on ADI deposits are not those Australians with the greatest capacity to pay tax. They are disproportionately lower-middle to middle income Australian working families and Australian households headed by a person who is near or above 60 years of age – holding a modest overall level of wealth but financially risk averse.

FCS threshold

Abacus suggests the per-depositor cap for the Financial Claims Scheme (FCS) should be maintained at $1 million indefinitely. The $1 million cap applies until October 2011 and its future level is currently under review. Any change to the cap will be potentially disruptive and will pose a communication challenge.

The $1 million per depositor cap, guaranteed by the Government, poses no risk to the taxpayer because:

1. the prudential regulatory framework ensures that it is highly likely that the remaining assets of a failed institution will be sufficient to recover funds paid out under the FCS to depositors; and
2. in the unlikely event of there being a shortfall, banking institutions will be levied to make up the difference.

[18] RBA Deputy Governor Ric Battelino, speech, 16 December 2009

The FCS reduces the risk of a 'run' on a banking institution because depositors do not have to fear losing their funds. The price of entry to the FCS for the banking institution is an extremely tough prudential regulatory regime.
The perception that major banks are too big to fail is an anti-competitive factor in the banking market. The FCS levels the playing field for large and small banking institutions and is a pro-competitive factor. Rather than being seen as a risk to the taxpayer, the FCS should be seen for what it is – an early access facility for depositors' funds in the event of an institution failing.

Importantly for competition in retail banking, the $1m cap is reassuring for larger depositors, such as local government, non-government organisations and other institutional depositors, that are important sources of funding for smaller ADIs.

APRA and others have noted from recent experience that 'runs' are generally not caused by depositors with small amounts.

APRA executive Keith Chapman told a Senate Committee that: "It was the large depositors; it was not so much 150 people pulling out $1,000 each of an ADI. That is not a threat."[19] Wallis Inquiry member Professor Ian Harper told the Committee that: "These things start in wholesale markets...that is why, in my view, the best thing to do was to convince people who had a lot of money that it was all safe rather than the mums and dads with not that much."[20]

First Home Saver Accounts
Abacus strongly supports the Government's First Home Saver Accounts (FHSAs) initiative to help Australians buy their first home. FHSAs are also potentially a valuable source of funding for home lending by ADIs.

The expiry of the First Home Owners Boost program provides the opportunity for the FHSA scheme to be revamped and relaunched.

According to APRA, in December 2009 only 18 ADIs and one RSE are offering FHSAs, including 13 mutual ADIs. Only two of the four major banks are offering the product, and no friendly societies – institutions who would ordinarily welcome the opportunity to offer a medium-term savings product such as this – are offering this product.

The Government estimated in early 2008 that FHSAs would hold around $4 billion in savings after four years. The amount in FHSAs as at September 2009, $43.9 million, is just over one per cent of this anticipated amount. It appears highly likely that the FHSA scheme's Budget costs will be much smaller than anticipated.

This gives the Government scope to improve and relaunch the scheme.

The most consistent issue that appears in feedback to Abacus from credit unions and building societies about FHSAs is that the four-year 'lock-up' requirement is too long and is the single most important disincentive for savers.

Abacus recommends that the Government should remove or reduce the period of time during which savings in FHSAs can't be withdrawn. The Government contribution is incentive enough to ensure that savers contribute over a number of years. A minimum period is an unnecessary disincentive and penalises savers who have the opportunity to buy a house within the 'lock-up' period.

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[19] Hansard, Senate Economics References Committee, 28 Jul 2009
[20] Hansard, Senate Economics References Committee, 14 Aug 2009

Retirement Saving Accounts
Abacus will engage with the Cooper Review of the superannuation system on Retirement Saving Accounts (RSAs) but we flag in this submission there may be potential for RSAs to play a larger role in ADI funding.

The amount held in RSAs jumped from $1.2 billion in September 2008 to $5.8 billion in December 2008 at the height of the global financial crisis before levelling out at $6.2 billion in September 2009.

The Cooper Review Issues Paper released in December 2009 noted that there are 10 institutions offering RSAs, most of which are credit unions. The paper said "there has been little incentive for issuers to create and distribute them using the existing product distribution model because of the low balances involved [and] RSAs do not lend themselves to the charging of contribution or ongoing management fees and hence there is no source of revenue from which to pay incentives to advisers to recommend them."21

Clearly RSAs do not offer superior financial returns over the long term accumulation phase of superannuation but they offer a safe refuge and therefore suit consumers with a certain risk appetite and investment timeframe. The distribution model for superannuation products needs to cater for consumers who might be suited to RSAs at particular stages of the superannuation cycle.

Securitisation
Abacus appreciates the Government's measures to date to support the securitisation market but seeks a closer examination of the competitive dynamics of the securitisation market and the role of the major banks.

The Government's support for the RMBS market through the AOFM:
- has led to "more competition that would otherwise have been case";
- "may have prevented some smaller lenders from withdrawing from the mortgage lending"; and
- "maintained the operational infrastructure of the RMBS market, which will help to facilitate a faster recovery once conditions in financial markets normalise."[22]

However, a precondition to recovery of the securitisation market is properly functioning markets in warehouse provision and liquidity facilities for Asset Backed Commercial Paper (ABCP). These markets are critical for new home loan origination by competitors to the major banks but they are controlled by the major banks.

Professor of Finance at the University of Melbourne, Kevin Davis, says the question arises whether these markets operate competitive and effectively. "In the wake of the global financial crisis, some originators have expressed concerns that the answer to this question is not a clear yes," Professor Davis says. "Because the banks are also the major competitors in the housing loan market, it is not obvious that it is in their interest to encourage securitisation-based competitors by making warehouse funding easy."[23]

Abacus requests a review of the barriers to new loan origination by securitisation-funded lenders rather than a continuing focus on the RMBS market alone.

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[21] Cooper Review Issues Paper Phase 3 Structure, 14 Dec 2009
[22] Answer to Question In Writing to Treasurer, Question No. 1020, House of Representatives, 16 Nov 2009
[23] RMBS feel the squeeze, Kevin Davis, AFR 9 Dec 2009

Other forms of retail and wholesale funding
Abacus recommends that the Government take note of the UK Government's decision to convene an expert group of key stakeholders to advise on strategic issues affecting UK mutual building societies.

The UK Chancellor of the Exchequer's December 2009 Pre-Budget Report says: "The Government is also taking steps to promote competition and consumer choice through supporting the development of a strong, competitive and sustainable building society sector. Despite weathering the financial crisis well, there remain challenges to the traditional building society model in the current market environment, including increased competition from banks for retail deposits, pressure on margins, and capital and funding constraints."[24]

Australian mutual ADIs face similar challenges and Abacus urges the Government to adopt a similar process to pursue new and enhanced funding and capital options.

Credit unions and mutual building societies, individually and collectively, have accomplished a range of innovative capital and fund-raising solutions to date. The credit union sector's main aggregator, Cuscal Ltd, is currently exploring with its customers and shareholders a range of future funding options for the industry. The Credit Union Mutual Fund group is seeking to raise non-deposit funding from super funds through a special purpose vehicle. In a first for the mutual ADI sector, Heritage Building Society in September 2009 raised $50 million from the issue of ASX listed debt securities.

An expert group of key stakeholders convened by Government could identify further opportunities and any barriers that currently block access to funding and capital sources.

[24] UK Chancellor of the Exchequer Pre-Budget Report December 2009

UPDATE REDUCED INPUT TAX CREDIT

The Government should use its review of the GST financial supply provisions to update and revitalise measures taken to ensure that smaller financial institutions are not unfairly burdened by GST input taxing.

GST reduced input tax credits (RITCs) were introduced to address the bias to in-source certain acquired inputs. This bias favours large financial institutions with the capacity to in-source. Smaller financial institutions such as credit unions and building societies do not have this capacity.

Abacus lodged a proposal with Treasury in July 2009 to amend the existing RTIC item 16 "Credit union services" so that the item covers mutual building societies as well as credit unions.

Abacus is owned by credit unions and mutual building societies and provides a wide range of services to its members. These include public affairs representation, government and regulator relations, media representation, regulatory compliance advice and support, research and market intelligence, and support to fight fraud and financial crime.

A large bank can self-supply these services and reduce its GST burden and therefore can gain a competition advantage on smaller competitors whose business models and industry structures have always involved significant outsourcing. These business models and industry structures existed before the introduction of the GST and continue to develop and evolve today.

Credit unions and building societies also obtain commercial services, such as treasury management and payments system access, from a range of industry-owned service providers. Again, a large bank can self-supply these services and reduce its GST burden.

RITC item 16 "Credit union services" currently only applies to supplies to credit unions provided by an entity wholly owned by two or more credit unions. Since the RITC framework was legislated the consumer banking market has undergone significant change, including continuing consolidation among mutual ADIs and the rationalisation of industry support bodies. These changes include the prospect of mergers between credit unions and mutual building societies.

What has not changed is the self-supply bias of GST input taxing.

The policy intent of RITC item 16 is not being fulfilled due to the narrow definition of the item and the evolution of the mutual ADI sector. Services provided by Abacus to mutual ADIs that assist mutual ADIs to compete with major banks carry the full GST burden whereas the same services provided in-house by a major bank do not bear this burden. This further tilts the playing field in favour of big banks.

Amendments are needed to preserve the original policy rationale for RITC item 16 and to reflect changes in the mutual ADI sector. RITC item 16 should be amended to cover supplies to a credit union or mutual building society by an entity majority owned by two or more credit unions or mutual building societies.

This would remove some of the taxation advantage that GST input taxing bestows on big banks against their smaller competitors.

Indue Ltd, a credit union service organisation, supports this proposal in its submission to Treasury. "It is inevitable that a credit union and a building society will merge in the near future and this action of itself may result in all Indue credit union customers losing access to item 16," Indue's submission says.

The submission to Treasury from the Australian Bankers' Association and the Investment & Financial Services Association (ABA/IFSA) says the RITC regime has been critical in maintaining the efficiency and competitiveness of the Australian financial sector. "Were it not for the [RITC] regime, large FIs could insource many key processing functions leading to what is known as the 'self supply' bias," the ABA/IFSA submission says. "For example, a large financial institution can easily choose to insource call centres, its IT department and statement processing and bulk mailing functions."

"In addition, it should be noted that smaller FIs (such as credit unions and building societies) typically do not have the scale to insource the above types of services. The RITC is essential to maintaining the overall competitiveness of the Australian financial sector," the ABA/IFSA submission says.

The Australian Financial Markets Association (AFMA) says the RITC regime has been a counter balance to the bias against outsourcing and has helped to provide diversification and competition in important areas of financial services. "This is particularly the case for smaller financial institutions such as credit unions and building societies," AFMA's submission says.

Currently, Abacus member ADIs pay $7.5 million for Abacus services so the potential impact of our proposal on taxation revenue is not significant.

This proposal is timely, pro-competitive and consistent with the original policy rationale of the RITC framework.

ENCOURAGING SAVING

As detailed in our submission to the Henry Review, Abacus supports the implementation of taxation policy measures to promote an increase in Australia's household savings.

Taxation of deposits and improving FHSAs are dealt with earlier in this submission.

Abacus also proposes a reduction in tax rates on life insurance savings to boost the capacity of individuals to respond to major 'life event' financial commitments outside of retirement. The capacity to fund important pre-retirement objectives such as children's education, home ownership and healthcare should be encouraged by policy settings.

Facilitating better education savings
As a result of the previous Australian Government's review of business taxation, accommodation was made for a special purpose education savings product called a 'scholarship plan' where it is offered by friendly societies – with a new tax framework for products offered from 1 January 2003.

Abacus proposes the use of this existing product to encourage post-compulsory education savings under a new Government co-contribution scheme.

An individual's demand for post-compulsory schooling may be considered to be a function of:
- the expected return to investment in post-compulsory schooling;
- perceived or actual cognitive ability;
- opportunity to devote time to learning (i.e., access to the financial resources necessary to sustain study);
- risk; and
- preferences (i.e., the like or dislike for learning).

Evidence from surveys on the reasons for leaving school early supports the view that employment is an important factor in a student's decision to stay at or leave school. In the Australian Council for Educational Research *Youth in Transition* longitudinal surveys, early school leavers from the cohort of persons born in 1975 (and thus 19 years of age in 1994) were asked to rank the relative importance of reasons for leaving school early. For males and females alike, the most important reason was finding a job. In fact, over half rated this as a very important reason, followed by 39% citing the need for their own money as a very important reason.

Abacus believes, given the factors noted above, that the time is right for Government to consider the merits of providing a financial incentive to encourage a child's education beyond the school leaving age.

A co-contribution has been accepted in the areas such as encouraging a higher birth rate, first home ownership, increased health insurance participation and superannuation. An appropriate, responsible and sustainable co-contribution scheme could also provide an incentive to encourage education beyond the school leaving age.

Friendly societies and education savings
Friendly societies have operated in Australia since the early 1800s, often to provide benefits, services and facilities for the education of members or their dependants.

Modern education savings plans (defined as 'scholarship plans' in the *Income Tax Assessment Act 1997*) have been offered since the 1970s, and have encouraged parents and grandparents to set aside savings with the specific purpose of meeting the future education expenses of nominated student children and grandchildren.

Apart from being established providers of education savings plans, friendly societies have been active in working together with educational institutions, to help promote the discipline of education savings and act co-operatively to provide education benefits for nominated children. This is in keeping with the long-standing foundation objectives of friendly societies, and also the growing demands of the Australian community for purpose-driven savings.

Industry research indicates that over 90% of Australian children undertake some form of post-secondary education. However, this participation rate does not mean sufficient savings are set aside to realise the full educational potential of our children – such as advancement to appropriate courses of further study.

During the past 30 years, over a quarter of a million education savings plans have been established by friendly societies – representing some $1.6 billion of funds under management. However, most of that growth occurred prior to new tax rules coming into effect from 1 January 2003.

Friendly societies are keen to develop additional products, however business development is dependent on a proper commercial assessment of whether adequate incentives exist to encourage investor interest at a time when the incentives for superannuation savings mean that superannuation attracts significantly greater interest.

Current structure of a friendly society education savings plan
As with all friendly society products, specific product rules attach to each product and are referred to as 'approved benefit fund rules' under the Life Insurance Act 1995. These rules are subject to approval by APRA.

An education savings plan involves:
1. A plan sponsor (typically a parent or grandparent) – whom makes capital contributions to the plan; and
2. A nominated student – who receives benefits from the plan.

In accordance with the 'approved benefit fund rules', the following transactions generally arise:
a) Amounts are regularly contributed by the plan sponsor to each child's education fund or, alternatively, as a single lump sum.
b) After a specified period – and subject to strict qualification criteria under the rules – benefits become payable to help meet approved education expenses of the nominated student.

Giving students additional support
Apart from transitional tax rules that apply to a 'scholarship plan' issued prior to 1 January 2003, the following tax consequences arise for a plan issued on or after that date:
a) Amounts contributed are treated as capital contributions of the plan sponsor.
b) Earnings derived by the friendly society (on the amounts contributed and re-invested earnings) are subject to tax as part of assessable income of the friendly society, in respect of its ordinary life insurance business.
c) Education benefits paid (apart from a return of capital contributions) are assessable in the hands of the nominated student.
d) Education benefits paid include a recovery of tax paid on earnings, due to deduction received by friendly society.

Abacus does not seek any changes to this tax framework, other than in relation to the treatment of tax on students who are minors. Benefits to these students could be enhanced if they were not assessable in the student's hands. While many full-time tertiary students may not be paying tax in any event, due to their taxable income remaining below the effective tax-free threshold, tax is likely to erode the benefits of students who have not yet reached age 18 years – or who may be aged over 18 but whose total taxable income (as a result of including assessable education benefits) is increased above the tax-free threshold.

While education benefits remain assessable to the student under a scholarship plan, a disincentive is perceived to exist by the adverse impact of tax on students who are aged under 18 years. This disincentive could be averted by an amendment to Division 6AA of the Income Tax Assessment Act 1936 – by excluding assessable education benefits paid from a scholarship plan from Division 6AA taxation.

To help encourage the wider community to increase savings to fund *post-compulsory* education expenses of students, a capped Government co-contribution could also be granted where the contribution and co-contribution is invested in a friendly society scholarship plan. To help ensure any Government incentive is not abused and the benefits maximised, the friendly society would maintain its strict qualification criteria for processing education benefit claims. The product could then be designed so that fees would not decrease the capital amount, ensuring the preservation of the proposed Government co-contribution.

Additionally, it is proposed that an unused co-contribution amount be returned to the Government. This could occur if education benefits are not paid – say, because the plan was discontinued early, the nominated student did not pursue post-compulsory education for whatever reason.

It is suggested that the amount of the co-contribution, its cap, any indexation of the cap and other details be the subject of further consultation with industry – after an in principle decision is made on the co-contribution proposal itself.

By way of illustration only, a $1,000 first year per child lump sum co-contribution from the Government could be paid to promote early planning by parents of young children for their education by opening an education savings fund. The Government would then make a co-contribution into that child's scholarship plan up to a maximum of $10 for each child per week (or $520 each year) for a further maximum of four years.

This would provide parents of young children an incentive to become long-term savers and would provide the incentive to lower or middle income earners to provide for their children's future post-compulsory education costs (whether it be a higher secondary, TAFE or university course).

The benefits that would be generated for a student could be very worthwhile in that parents of a baby co-contributing only $10 per week and receiving the maximum government co-contribution, such as indicated in this example, would accumulate to an amount of around $18,000 after the student reaches age 18, including:

- the parent's own capital contribution equalling the Government co-contribution,
- the $3,080 Government co-contribution ($1,000 + $520 x 4), and
- the credited earnings (this example assumes a 5% net crediting rate).

The Child Trust Fund initiative

In the United Kingdom, the government *Child Trust Fund* (CTF) initiative gives every eligible child a voucher worth £250 (or £500 means-tested) at birth to be invested in a special CTF savings account that can only be accessed when the child reaches 18 years of age. Parents are encouraged to add regular small contributions to such CTF accounts.

Wide community benefits of the proposal
This co-contribution proposal will provide an increased funding capacity of Australians families to meet post-compulsory education costs and fees – thereby reducing their reliance on Government funding assistance through the Higher Education Loan Programme [HELP].

Additionally it will provide for an increased capacity of individuals to meet post-compulsory education expenses – whether tuition fees, residential costs or engaging in electives. It will also allow students to access fee discounts through making up-front payments on course costs at tertiary institutions, and discounts for early and timely repayments of HECS-HELP debts.

This initiative will also reduced the debt burden in the immediate aftermath of post-compulsory education, ensuring young Australians have an increased capacity to fund other life events such as home purchases.

Providing a new way to pay for private health insurance
Ten million Australians pay for private health insurance, which allows crucial public resources to best care for those most in need. According to the Australian Health Insurance Association, health funds paid for 2.1 million hospital episodes over the past two years at a cost of $5 billion. Without private hospitals, health funds and their members, the public hospital systems would have had to treat those patients.

Abacus proposes two simple amendments to current tax laws, both of which relate to section 26AH of the *Income Tax Assessment Act 1936*, to allow for the development of new products that would pay for health insurance.

Abacus supports a clarifying amendment to help remove any ambiguity or misunderstanding about the "carve-out" provisions within sub-paragraph 26AH(7)(a)(ii). These provisions describe particular circumstances of policy withdrawal, where amounts withdrawn will not be assessable to the policyholder. In particular, we support an interpretation of the phrase that allows a non-assessable withdrawal in consequence of "an accident, illness or other disability" of the life insured.

Further, we support a logical and practical expanding amendment to subsection 26AH(7) that relates to the existing carve-out provisions noted above to allow individuals to use their policy savings to pre-fund their illness and disability expenses, which may extend to paying and pre-paying premiums for private health insurance arrangements.

Abacus is not seeking any special new treatment for insurance bond products beyond the tax framework arrangements already in place, by way of departure from the insurance bond's cornerstone uniform 30% entity/fund level taxation of friendly societies nor from the existing taxing arrangements under Division 320 of the *Income Tax Assessment Act 1997*.

The use of an insurance bond in this fashion is not designed to be "self-insurance", nor is it an alternative to health insurance. Rather, it offers a disciplined investment environment that is designed to encourage long-term savers to withdraw their funds and meet current or insured sickness expenses, without the perception or concern of adverse personal tax consequences.

Background to proposal
Friendly societies have a long history of offering a type of life insurance policy known as an "insurance bond" or "investment bond" or "10 year bond" as the product platform for long-term savings and investment. Friendly societies are providers of dedicated "life event" financial products and insurances. These products can "lock-in" financial provisioning for important "life events" – be it educating children or grandchildren, family health and accident contingencies, aged care and accommodation or planning to fund future expected funeral expenses.

Friendly societies were an activate participant in consultations during the former Australian Government's business tax reform process, and particular provisions were enacted to establish an appropriate tax framework for investments in funeral policies, income bonds and scholarship plans offered by friendly societies.

Following the review, the Government decided to leave intact the existing section 26AH tax mechanism for standard life insurance policies, which also applies to their modern version known as 'insurance bonds' or 'investment bonds'. They are also referred to as a "policy" or "policies".

Section 26AH was introduced to the *Income Tax Assessment Act 1936* in August 1982, to include in the policyholder's assessable income the growth component of policy withdrawals, where the policy was held for a shorter period than 10 years.

However, a carve-out was provided for withdrawals that arose -

a) in consequence of the *death, accident, illness or other disability* of 'life insured'; or
b) as a result of *unforeseen serious financial difficulties* of the policyholder.

While the 'life insured' and the 'policyholder' can sometimes be two different persons (e.g. spouses, parent and child, etc), they are usually the same person.

Prior to 1 July 2000, Division 8A of the *Income Tax Assessment Act 1936* provided the sole framework for taxing friendly societies. Under Division 8A, taxable 'eligible insurance business' had carved out funeral policies and sickness policies which had non-assessable income tax status. Following the 1 July 2000 replacement of Division 8A with Division 320 of the *Income Tax Assessment Act 1997* and subsequent government amendments, sickness policies issued up to 31 December 2002 (like funeral policies, income bonds and scholarship plans) continued to attract non-assessable income tax status.

However (unlike funeral policies, income bonds and scholarship plans), no new tax framework was provided for sickness policies issued from 1 January 2003. By default, their income became taxable similarly to standard life insurance policies – and affected policyholders therefore became assessable under the section 26AH framework.

Abacus has identified that a minor amendment to the carve-out provisions of subsection 26AH(7) could provide clarity to the aforementioned expressions "... accident, illness or other disability ...". Existing law provides no definition or guidance on what is meant to fall within the scope of 'accident, illness or other disability' of the life insured in sub-paragraph 26AH(7)(a)(ii).

Abacus suggests that the above-quoted expression in sub-paragraph 26AH(7)(a)(ii) might contemplate a withdrawal (or part-withdrawal) by the policyholder to help fund any expenditure which qualifies as 'medical expenses' under subsection 159P(4) of the *Income Tax Assessment Act 1936*.

Examples of such expenditure include:

- Medical expenses;
- Hospital expenses;
- Non-cosmetic dental expenses;
- Optical and optometric expenses, including laser eye therapy;
- Certain carer expenses;
- Qualifying therapeutic treatment;
- Prescribed medical aids;
- Artificial limbs, eyes and hearing aids;
- Guide dog expenses; and
- IVF treatment.

Abacus supports a Government announcement that the above interpretation is correct, (and a minor clarifying amendment to section 26AH(7)(a)(ii)) that could see the development of a whole new suite of products that would allow Australians to pay for private health insurance with significantly more flexibility.

Friendly societies have long offered sickness policies, although many traditional polices have become outmoded, giving rise to the need to provide an opportunity for Australians to save for future sickness expenses through new and innovative approaches.

Abacus also supports a logical and practical extension of the carve-out to include a withdrawal (or part-withdrawal) to meet 'accident, illness or other disability' expenses that are prepaid by way of premium contributions to a private health insurance fund.

Abacus envisages that withdrawals to meet private health insurance premiums will be subject to natural limits associated with:

a) annual premium costs actually incurred/payable (e.g. $2000 p.a. for single policies or $4000 p.a. for family policies);
b) longer-term pre-payments actually incurred/payable (e.g. to pre-pay for a term, life, joint-lives etc).

This would also make a practical contribution to the government's broader agenda to improve private savings and provide for greater financial self-sufficiency.

These new products would enable health insurance to be paid-up for life (or the joint lives of, say, a husband and wife), or for a defined term. This could be achieved by investing an appropriate amount in an insurance bond for the purpose of funding future health insurance premiums and then drawing on those life insurance savings, without any personal tax impact in the year of withdrawal, to pay annual premiums.

Abacus notes that it is not currently possible to pay more than one year's health insurance premiums in advance, without creating long-term reserving issues for a health fund. So, this product would become a means to set aside purpose-based savings for a longer period.

Insurance bonds, as a funding vehicle for health insurance premiums, can also be the mechanism to counter consumer concerns regarding the annual raising of health insurance premiums. Investment performance on an insurance bond can serve as a hedge against premium cost inflation.

A new measure to encourage new savings

Abacus suggests that by expanding "life event" savings choice in this way, insurance bonds (as the modern form of a life insurance policy) will have greater potential to encourage new savings, without detracting from the government's superannuation policy objectives.

Indeed, with superannuation's focus on helping individuals with retirement income funding and generally preserving (or locking-in) savings before retirement, Abacus sees a critical need to encourage Australians to help meet their ongoing sickness costs – either directly from savings and/or by using those savings to pay or pre-pay health insurance premiums.

A new measure to encourage private health insurance
Abacus believes that this proposal will translate to a new and long-term inducement, for those Australians able, to take out and remain in private health insurance, thus easing the burden on the public health system. Australians would have the opportunity to invest in an insurance bond that offers the potential of a tax-paid withdrawal for the purpose of funding ongoing private health insurance premiums - for example into retirement or when the policyholder is facing financial strain in continuing to meet such premiums.

OTHER MEASURES: DEBT COUNSELLING & GREEN LOANS

Debt Counselling Service

Abacus believes there is a strong case for the establishment of a national, free or low-cost not-for-profit debt counselling service to remedy systemic problems caused by Part IX of the Bankruptcy Act.

In recent years, there has been a heavy focus on Debt Agreements as the best alternative if the extent of a debtor's financial difficulties means they are facing bankruptcy.

Abacus is concerned that debt administrators are rapidly replacing financial counselors in the community as the first point of call during financial troubles.

How the system should work

When a debtor is facing financial difficulty they should have clear, unfettered access to a free financial counselling service that will:

1. Offer a holistic assessment of their financial difficulties – what is their current financial position, what got them in that position in the first place and how can they avoid getting into such a predicament in the future.
2. Clearly explain all of the available courses of action the debtor can take to reclaim their financial wellbeing.
3. Recommend the best course of action that suits their particular circumstances.
4. Manage their progress on an ongoing basis as needed.

How the system currently works

Most debtors in financial distress are entering into debt agreements under Part IX of the Bankruptcy Act with little or no financial counselling that helps them avoid financial trouble in the long term.

Debt agreements were intended as an alternative to bankruptcy. The number of debt agreements issued in Australia has increased from 48 in their year of inception (1996) to 8,567 as at June 2008. However, instead of seeing relative reductions in bankruptcies during the same period, they have increased, with the trend also bearing no relationship to changes in Part IX debt agreements.

One of the key drivers of this growth is heavy and aggressive marketing of debt agreements by private administrators who stand to profit should the debtor take one up.

A debtor facing financial difficulty would typically investigate their available options by a simple Google search, a look at newspapers, or a perusal of social networking sites. They will see the extent of the promotion of debt agreements, easily crowding out any independent information, such as that from the Insolvency and Trustee Service Australia (ITSA).

This means many debtors are likely to believe there is only one option available to them – a debt agreement through a private administrator.

This system is flawed because:

1. It is founded on a conflict of interest – a 'for profit' debt agreement administrator will always have one goal in mind: to encourage as many people as possible into a debt agreement over all other possible courses of action.
2. The debtor is taking up an option that is not necessarily the best course of action that delivers the best possible outcome with the least possible consequences.

3. The debtor misses out on the benefits of a holistic management of their problem and advice on how to avoid such problems in the future - by recommending one course of action, a debt agreement administrator has no need to provide a full financial counselling service that examines the debtor's problem on every level and manages them through their difficulties on an ongoing basis.
4. This debt agreement path which most debtors are encouraged to take is the second most extreme course of action next to full bankruptcy and therefore comes with high consequences.
5. This option also comes with the highest possible cost to the debtor out of any course of action they could take and the second highest cost to creditors next to full bankruptcy.

What is the solution to this problem?
There are at least two potential solutions to the problem:

1. Introduce a new regulatory framework and/or ban private administrators from advertising.
2. Provide a low-cost or free alternative that is an independent, not-for-profit entity and therefore has no conflict of interest that would see it recommend the same course of action to every debtor.

Abacus believes Option 2 is the best means of ensuring people in financial distress get the help they need.

By adding an unbiased, low-cost or free alternative into the 'marketplace', private administrators would have a greater incentive to compete on price and service by demonstrating and delivering value to debtors and creditors.

A key concern lies with the 'set up' fees changed to debtors, who are in the midst of financial distress, and the ongoing 'administration' fees charged to creditors. Set up fees charged to debtors can be in the thousands of dollars and administration fees charged to creditors are regularly as high as 27.5% of all repayments.

A free or low-cost not-for-profit alternative is designed to support existing financial counselling networks already well-established in the community and would:

- examine a debtor's financial circumstances and offer an accurate, unbiased 'diagnosis';
- recommend or refer a best course of action under a 'triage' system;
- negotiate repayment arrangements with single or multiple creditors;
- negotiate and arrange debt agreements;
- refer a debtor to a bankruptcy trustee; and
- offer financial and budgeting advice.

The benefits of a free, national debt counselling service are significant in that it would offer:

- unfettered access to quality, unbiased advice;
- a free service puts more money in the hands of troubled debtors when they need it most;
- higher creditor returns, benefiting responsible lenders such as mutual ADIs and their wider customer base;
- nominal fees to creditors which helps them offer more flexible arrangements to debtors;
- increased financial literacy; and
- creation of a financial counselling 'network' and the inherent benefits that come with such a network.

The UK already has a similar service that has proven to be very successful in helping reduce financial distress and bankruptcy.

The UK's Consumer Credit Counselling Service (CCCS) has an annual expenditure of £21,000,000.

Green Loans Program should be improved and expanded

Mutual ADIs have been strong supporters of the Australian Government's Green Loan Program (GLP), comprising 14 of the 16 associated financial institutions. This strong representation in the GLP is reflective of the strong community focus of Abacus members - not to generate profits for shareholders but to serve the interests of their members and their communities.

Expand and extend the GLP

Abacus urges the Government to restore the funding for the GLP to $300 million, as initially announced in May 2008, allowing an additional 125,000 families to access this scheme.

Despite the initial technical problems with finalising the home sustainability assessments, November 2009 correspondence to Abacus from the Government notes that over 35,000 householders have indicated an interest in accessing a Green Loan.

With the announcement of the GLP as part of the 2008-09 Budget as a five year program mutual ADIs have developed their products in anticipation of the program terminating in March 2013. However with the reduction in funding of the GLP by $125 million in May 2009 combined with this strong community interest in the scheme, there are real fears that the program will end before institutions have been able to recoup the associated product development costs.

The decision by the Government to suspend additional financial institutions from becoming partners of the GLP in November 2009 was in this regard an understandable step. However, this decision has now 'frozen out' institutions that were in the process of developing a Green Loan product.

Loan subsidy should be improved

Despite 14 Abacus members offering the GLP, the loan subsidy design does not properly compensate financial institutions that offer this product to their communities. The loan subsidy design has effectively reduced the attractiveness of the GLP for the many other institutions that would have ordinarily sought to offer this product to their members.

The interest subsidy for the GLP will be calculated through a model developed by the Government that will effectively amount to 500 basis points over the official cash rate.

The vast majority of unsecured personal loans have a significantly higher rate, reflecting the cost of funds and risks associated with personal loans. The interest rate restriction makes the product unviable for many institutions, undermining the government's aim to widely distribute the GLP as a response to climate change.

Abacus suggests that the government look at either lifting the interest subsidy above 500 bps or alternatively examines an option that would allow individual institutions the capacity to vary interest rates within a specified band set by the government.