ENVIRONMENT AND NATURAL RESOURCES COMMITTEE

Inquiry into energy services industry

Melbourne — 20 February 2006

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Mr D. Walsh, Group Manager, Corporate Services; and
Mr J. Yardley, Group Manager, Personal Banking, mecu Limited.
The CHAIR — The committee welcomes Mr Damien Walsh, group manager, corporate services, and Mr John Yardley, group manager, personal banking, from mecu Limited. All evidence taken by the committee is taken under the provisions of the Parliamentary Committees Act and is protected from judicial review; however, if you make comments outside the precincts of the hearing, they are not protected by parliamentary privilege. Hansard is recording all evidence taken today, and you will be provided with a proof version of the transcript within a couple of weeks. We have half an hour, so could you chat to us and leave us about 10 minutes for questions.

Mr YARDLEY — I have a prepared statement. We came into this quite late, so I apologise for not having a presentation. The statement will take about 10 minutes.

Thank you for giving us this opportunity to speak to the committee. At mecu we believe a new business challenge is emerging where the trade-offs between environment, community and business interests are no longer sustainable. About three years ago we recognised that a long-term approach was required to align our business with societal expectations, and also that sustainability principles needed to be embedded in our organisation.

Equally, we also believe that sustainability is a significant commercial opportunity, one that would be valued by our customers and by investors. Sustainable businesses do not achieve success by chance; they develop a systematic approach to management which allows them to operate in a manner that satisfies their stakeholders’ economic, social and environmental expectations. mecu is one of Australia’s 157 financial cooperatives and has been in business for 45 years. mecu is owned by 100 000 shareholders, 84 per cent of whom value our commitment to sustainability. We have actually surveyed them and we have strong support.

mecu is Victoria’s largest credit union, with $1.2 billion in assets. It is our view that the socially responsible values upon which credit unions were created 150 years ago are still very relevant. However, these days the present community issue is no longer centred on low-cost finance. Today’s issues relevant to mecu’s business as a socially responsible financial institution include: greenhouse and climate change; water and energy conservation; house affordability; and high levels of personal debt and low levels of financial literacy.

As a result, mecu was the first credit union in the world to become a signatory to the United Nations Environment Program finance program on the environment and sustainable development. As a direct result of this mecu has recently entered into a sustainability covenant with the EPA — essentially, the Victorian government. This covenant requires mecu to better manage our environmental and social impacts, to encourage and assist our customers to become more sustainable, to continue to apply prudent financial business practices, and to encourage others to embrace sustainability — our customers, other people in the financial services industry and society as a whole.

Having considered the terms of reference of this inquiry I believe we can best contribute by offering our thoughts about the main barriers to and drivers for the development and uptake of energy efficiency services in the residential sector. Most of our customers are individuals rather than businesses, and certainly that is where our experience over the last three years has been.

We have found that young people provide a really useful insight into sustainable consumption. The National Youth Affairs Research Scheme has included research into sustainable consumption. When asked to cite the no. 1 reason why they did not always choose sustainable products or services, the majority of those surveyed stated that these products were not convenient to their needs, echoing a broader complaint about the lack of sustainable or green products on the market.

Almost 20 per cent said that sustainable products were too expensive, 17 per cent stated that sustainable products were not easily available and 11 per cent stated that the lack of information on sustainable products was a key barrier.

Research like this, and in particular our experience over the last three years, has led us to the conclusion — and I think that this is crucial — that only in limited cases can a premium pricing strategy be adopted in the marketing of sustainable products. You cannot judge a premium where they cannot be more expensive than the alternatives. And you can only do that — and these are the limited cases — where the environmental benefits are perceived to create both a personal or private benefit rather than a public benefit that benefits society as a whole.
A great example of this is organic food. People will pay a premium for organic food because it provides a personal health benefit as well as the public benefit in that it is good for the environment because it is a great way to grow food. There are no pesticides and so on and so forth. People will pay more for organic foods because they are getting the personal benefit and there is also the public benefit.

When consumers make purchase decisions they evaluate product attributes and benefits and make explicit trade-offs between more and less desired attributes. For sustainable products, product evaluation includes not only price, performance and features but also the environmental benefits of the product amongst the bundle of other attributes. Our view is that consumer trade-offs can be minimised by designing sustainable features into mainstream products.

At mecu we are not adding green products to our range of banking products. As a financial services provider mecu’s major social and environmental impacts are those caused by the activities we support through our products rather than our operations. We have a small footprint, but we do a lot of car loans and cars obviously pollute the environment. Therefore we seek to ensure that our products make a positive contribution to a responsible and sustainable society.

mecu is doing this by redesigning our core banking products to include features that encourage people to be more environmentally responsible and help alleviate social issues within our community. We believe that by doing that we will gain a competitive advantage. We believe this is a commercial opportunity.

I will give you a couple of examples, the first being mecu’s car loans. Every car loan taken out from mecu has the following attributes. In addition to competitive pricing, which does not change — your price always has to be competitive — our rates are determined according to the environmental efficiency of the motor vehicle. The lowest rates apply to the most environmentally friendly vehicles.

For example, if you were buying a Toyota Prius or a hybrid of that nature, you would get the lowest rate, which is about 7.49 per cent, as opposed to a standard, four-cylinder vehicle, for which you may pay 8 or 9 per cent, so there is an incentive.

Carbon dioxide emissions from the car are offset with Greenfleet at our expense, so we pay to have 17 trees planted each year for the life of the loan. It depends on the car, but it averages out that that completely offsets the emissions from the vehicle. There is also free loan protection insurance.

As a result of this product mecu will be the first financier in the world to offset the carbon dioxide emissions from its entire financed car fleet, and we have done this profitably. This is good business for us, and it is also good for the environment.

mecu won a Gold Banksia award for its goGreen car loan product, which really pleased us. It is probably the thing that put us on the map in terms of an organisation that is really embracing these things.

A second example is mecu’s partnership with savewater. Improving the energy efficiency of homes built in Victoria is critical to reducing the demand for energy for heating and cooling. All new dwellings constructed in Victoria must meet minimum 5-star energy efficiency rating, and mecu applauds this initiative.

These changes mean that energy use for heating and cooling in new homes will be halved, obviously resulting in significant savings in energy bills and reduced greenhouse gas emissions. However, the largest number of loans we do are to people who are buying existing dwellings, so we are seeking to achieve these types of savings in existing homes financed by us by providing price incentives to retrofit homes with water and energy conservation products. We cannot do this by ourselves, so for this reason we formed a number of partnerships with like-minded organisations committed to sustainability. These include government, not-for-profit organisations and business.

Together with Yarra Valley Water and Savewater, tens of thousands of Melbourne households will soon be offered low-cost finance from mecu as an incentive to install water and energy-saving products into their homes. Together we have designed a new low-interest home and personal loan product. When I say ‘low’, it is about a 0.7 per cent discount on the standard variable rate, so it is a very sharp rate, which gives people additional borrowing capacity to purchase energy and water saving products.
To qualify for the low interest rate, people must install a minimum number of qualifying products. For example, someone could be planning to do a renovation — they may be doing that anyway — but if they put in a water tank and solar panels or a combination of products, they will get this lower rate. It is not just those people who want to install these things; it is people who want to do the work anywhere and they think, ‘Okay, I will add this now that I have this incentive to do so’. As a further incentive, people are being offered a range of rewards, including holidays, TVs and other prizes to install water and energy-saving products into their homes.

In conclusion, we believe the future of sustainable finance will be determined according to whether financial institutions like mecu believe sustainable development makes a positive contribution to shareholder value and reinforces corporate values. Mecu is proof that sustainable business practices and behaviour can do both, provided consumer trade-offs are eliminated, product design is mainstream and incentive pricing is applied. Mecu sees environmental and social challenges as business opportunities, and societies need to become sustainable as the beginning of new pathways for our future prosperity. As I have said, we have a very clear and strong commitment to this process.

**Mrs COOTE** — Can I ask whose idea this was? Was it a corporate thing? Was it someone’s great idea, or was someone committed to this, or was it research? Where did it come from?

**Mr YARDLEY** — Obviously we needed to remain relevant. When I was talking about the low-cost finance issue before, people can get low-cost finance now — they can get it from banks; it has never been easier to get low-cost finance. Our traditional patch, which was assisting people to get home loans and providing low-cost transactions and so forth, was becoming less and less relevant. So when we looked at our business and the things that we did well, and we looked at the foundations of our business around mutuality, this just seemed to lend itself to it.

However, we also did a lot of research that showed about 15 per cent of Australians are very turned on by sustainability and environmental issues, and we believed that this was a niche that we could target. This was a decision that was a commercial one, but it is an approach that builds or continues what we already had, and the culture that we already had in our organisation.

**Mrs COOTE** — Given that you are providing these loans, what sort of follow-up has there been? Do you have people coming back who have had the car loan and were impressed with the way your organisation ran and the education and information that you gave them about that? Do they then say, ‘Now we are going back to mecu when we do up our house.’? Are you continuing to have the same market?

**Mr YARDLEY** — About 85 to 90 per cent of the lending we do is repeat lending to existing members. We found it more difficult to attract brand new customers or members to the organisation. For example, with the car loan product, the reason was that even though it was well priced, it was still out of the market. As good as the product was and the environmental benefits that came with it, people were still opting to go elsewhere because they could get a better price. There are some people who will make that green choice, if you like, regardless of the price, but in our experience the majority will not. It is unfortunate but it is just the way it is.

We have repriced and repositioned those loans, and they are more competitive in the market. When people are going through the list of things they are looking at, often they will look at price first, then they will look at whether these people are convenient and close, and then there will be a third consideration. We are hoping the third consideration will appeal to a number of people who will bring the green element to light.

**Mr HILTON** — I would like to congratulate you on your initiative. It is very encouraging. How far could this go? If I were interested in putting in some double glazing, would you offer me a competitive loan on that? Say I was looking at a new washing machine, some of which are more environmentally friendly than others, would I be able to ring your organisation and say, ‘What products have you certified as being eligible for this reduced scheme?’ Is that the way it would work?

**Mr YARDLEY** — That is a difficult issue to get a list of products that meet certain criteria. There are products flooding onto the market all the time. Manufacturers will often measure things in different ways. There are the big ticket items like solar panels and water tanks and insulation, double glazing, window shutters and those sorts of things that obviously have a benefit. Beyond that, we tend to trust people.
Mr WALSH — We provide links to third parties through our web site, which provides information around the environmental criteria of products. For example, with the car and the discounted pricing applied to the greenhouse rating, our web site links into the government web site. If government details on certain manufacturers’ products meet certain greenhouse gas ratings, then they will fall into our pricing range. We look for information out in the marketplace that is publicly available.

Mr YARDLEY — When you are getting into household appliances, though, it is very difficult.

Ms DUNCAN — You mentioned the sustainability covenant with the EPA. Can you give us a background into what that entails and what any outcomes have been?

Mr WALSH — We are a signatory to the United Nations environment program, the UNEP FI. A financial institution — this is a voluntary program — would normally engage with the UN, but the EPA have entered into an arrangement with the UN that they are the UN agency in the Asia-Pacific region. Our first step was being a signatory to the UNEP FI program and, following that, we began to engage with EPA Victoria and went through a fairly robust negotiation process where we established the covenant.

We agreed on commitments of our organisation and also commitments of the EPA in which they would seek to give us assistance, resources and guidance. Once we had established that framework with the EPA we signed the covenant and made that publicly available on both of our web sites. There are quarterly meetings at which a couple of the staff from mecu, including me, are present. Senior people from the EPA basically report on our activities to meet our commitments under the covenant.

Typically, we then ask them for assistance along the way, which is always a challenge because we all have limited resources, including the EPA, so they give us help where they can within their capacity. This is the first year for us, so it is under annual review — it is a three-year covenant. But the feedback from the EPA I have received to date has been really positive. The nice thing that I hear about our covenant is that there is a good balance between the economic, social and environmental. The typical covenants with the EPA are very strong on the environmental aspects but do not necessarily have a strong social component to them. Our covenant has a nice balance between those three elements. So that has been good feedback from the EPA.

Ms DUNCAN — What commitments have you made?

Mr WALSH — The type of commitments we have made are around our own footprint.

Ms DUNCAN — As an organisation?

Mr WALSH — Yes. We have programs in place to reduce energy consumption, water usage, paper usage and the amount of waste going to landfill and to increase the amount of recycling. Then we have in-house educational programs around training our staff about what sustainability is, what the organisation is trying to do and our products and services. Also, we have commitments under the EPA around engaging with our community.

For example, we are developing a program with the Gould League where we are looking at assisting them introduce retrofitting into Victorian schools — retrofitting solar panels or rainwater tanks, reticulation systems to ovals et cetera. Those types of programs are commitments under the covenant.

Mr YARDLEY — We recently had to go through an exercise to find where we are at and to provide reporting. It is really quite rigorous and takes a lot of time and commitment. It is certainly not just a throwaway document. We have had to do a lot of real work.

The great thing with the way that we have done it is that we do not have a sustainability manager at mecu, everyone takes responsibility for it so it is embedded more in the organisation. We have staff groups that do it, and all group managers are responsible for various parts of the covenant and ensuring that we take those actions. To do it otherwise, to have a sustainability manager who tells or directs people what to do just does not work as well. It is really becoming part of the way we do business, and it just makes sense. It is good business.

Ms DUNCAN — So it is through your covenant, and how far into it are you?

Mr WALSH — This is our first year, and if the EPA felt that we were not meeting our commitments under the covenant, it is entitled to cancel it. The same goes for us as well, but we take it seriously. We have
probably realised that we bit off a bit more than we could chew in our first year commitments, we perhaps should have spread them out a little bit more. But we are certainly working towards meeting the majority of them.

The CHAIR — So there are no penalties attached? There is no stick, it is all carrot?

Mr WALSH — Yes. But — for example, we are talking about a program with VicUrban around providing eco-housing — if we need assistance in presenting our credentials as an organisation or finding out how we might be able to participate in the VicUrban program, the EPA provide assistance in that as well, so some of it is informal and some of it is formal.

Mr YARDLEY — It would certainly be disastrous for our business, given the brand and what we are trying to achieve, if it went wrong.

The CHAIR — Can I talk about the Greenfleet? You offset the emissions with Greenfleet at your expense. Have you done any follow-through to see whether people actually take it on their shoulders to continue with their Greenfleet membership after the period of the loan?

Mr YARDLEY — No, we have not. We are about 18 months to two years into it so we are still not at a point where our whole finance fleet is covered by Greenfleet. Damien and I were talking about this before and we will reach a point of equilibrium, if you like, because the life of a car loan is invariably no more than two to four years. It is too early to say, but that would certainly be a concern.

Mr WALSH — My gut would tell me that if you have finished your loan and you are given the opportunity to pay the $17 a year yourself as an individual, most people would not pick that up. It is not a great dollar amount, but in terms of people thinking about taking an action, many of them would fall by the wayside.

The CHAIR — It would also depend on the relationship that people believe they have with Greenfleet, rather than the relationship they have with you. I am not sure that they are into relationship-building on an individual basis, they may be with — —

Mr WALSH — Greenfleet seem to be successful in engaging the corporate entities, a number of bodies that are offsetting the carbon emissions in their car fleets. It was very important for us to partner with a not-for-profit organisation and to engage with the wider sustainability sector. I suspect it is more difficult for them to establish relationships with individuals.

Mr YARDLEY — This was efficient for them and I think that was part of the appeal. They could get a large number of people who were not working for Telstra or whatever it may be and help them.

The CHAIR — Thank you for your evidence.

Witnesses withdrew.