

TROUBLE AT THE MILL

While most banks are executing excellent responsibility initiatives abroad, there is trouble brewing at home.

By ULRIKE SCHUERMANN



On the whole, financial institutions have successfully adopted responsible project lending practices on a global scale, through initiatives such as the United Nations Environment Programme Finance Initiative and the Equator Principles. While strong criticism has been leveled at these initiatives, such as the tendency to hide behind client confidentiality, much progress has been made, not least through the development of a common language.

With ripples being felt in Australia from the US sub-prime crisis, there is an increasing expectation that financial institutions should use their influence to promote responsible retail practices at home. The urgency of the situation could not be exaggerated, with approximately 784,000 households experiencing some form of mortgage stress in June, according to Fujitsu Consulting. It is estimated that this will reach 923,000 next month.

It is high time to review current lending practices, regulation and credit management and focus on how the banking system can be better equipped to manage surging levels of financial pain.

Why is it that those who are hardest hit in difficult economic times are always those at the lower end of the prosperity spectrum? And how is it possible that somebody who is already in financial trouble is able to obtain multiple credit cards, including store credit cards? How much credit is enough and what is its purpose? Should somebody who is in debt take advantage of a two-year interest free loan to buy a larger TV to watch the Beijing Olympics in style, or give into temptation to buy the new car advertised on TV? Whose responsibility is it: the business offering the line of credit, the relevant regulators or the consumers?

We generally assume that financial literacy is the key to combating problem debt by strengthening consumer responsibility. Financially, literate consumers are said to be good for the economy, driving

its growth through increased participation, increased household savings, reduced dependence on government allowances and lower levels of problem debt. They also drive financial product improvements and innovation and strengthen consumer protection. Financial literacy and consumer protection are there "to provide a safety net for those who are unable or unwilling to improve their financial education." (OECD)

However, as Michael Ullmer, NAB's deputy group CEO, said at the recent Australian Bankers Association Financial Literacy summit " ... while money management skills are a vital life skill and people generally want to make the most of their financial resources, financial literacy has not gripped the public's imagination."

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The time is right to take a cue from the lessons learned from global sustainable project lending practices and to integrate these lessons and principles into retail banking in all its forms - including the many mortgage products, lines of credit and payday lending. We need to translate existing environmental, social and governance principles and involve all relevant parties to establish the right mix of consumer protection, responsible lending practices and consumer responsibility with a view to achieving responsible and sustainable consumption through product innovation. Otherwise, the ripple may turn into a tidal wave, threatening the banking sector and Australia's hard-earned prosperity.

Ulrike Schuermann is the founder and director of Momentum International Partnership, Ethical Investor's partner in the Responsible Banking and Credit Stress summit (18 November, Sydney; 19 November, Melbourne)