TEACHERS MUTUAL
BANK LIMITED

SUBMISSION TO THE TREASURY SUSTAINABLE FINANCE STRATEGY CONSULTATION PAPER

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30th November 2023

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Sustainable Finance Unit
Climate and Energy Division
The Treasury
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November 30th 2023

Dear Sir / Madam,

Thank you for the opportunity to provide input into the Sustainable Finance Strategy (SFS). We applaud the high ambition approach, the aim to be a global sustainability leader, and support for clear and credible leadership in finance. This submission is about providing a mutual bank perspective.

About us - profit for purpose banking

Teachers Mutual Bank Limited (TMBL) is one of the largest customer owned banks in Australia, with over 234,000 Members and $10.7 billion in assets. We're a bank for good, for those who do good. We are small, at 0.17% of the banking system, and don't issue equity or debt – rather our capital is from the community - a form of consumer capitalism. We serve Australians working in education, emergency services and healthcare through our five bank divisions: Teachers Mutual Bank, Firefighters Mutual Bank, Health Professionals Bank, UniBank and Hiver.

We invest our members' money responsibly and ethically and run the bank for people planet and profit. We are not like other banks - profit for purpose is our business model and we are 100% owned by our members. Instead of profits being distributed to institutional shareholders and investors via dividends, our profits are re-invested into our organisation for the benefit of members, community and society.

Our members are low to middle income key worker Australians, and we are proud that none of our ESG work adds ANY costs to any member at all. We are proof that ESG can be more than an 'elite' occupation but embedded in the community.

Mutuals like us were not subject to ethical conduct scrutiny under the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

We represent what the Treasurer[1] describes as *"a new, values-based capitalism for Australia."*

Our ESG and climate credentials

We are a world leading socially responsible bank and this is founded on verified, third party certification and assessment; B Corp Certification, RIAA (Responsible Investment Association Australasia) product Certification, RIAA leadership ranking and NGO endorsement. We detail this on Page 6.

We are an active member of ASFI (Australian Sustainable Finance Institute) and a member of the ASFI's Leadership Working Group and Forum led by Deloittes. This group "*supports ASFI member organisations to adopt and drive the organisational transformation needed to set and achieve ambitious sustainability goals*".

1 Capitalism after the crises: In a time of serial disruption – to our economy, our society and our environment – the treasurer argues for the place of values and optimism in how we rethink capitalism | The Monthly

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Issues

Customer-owned banks are significantly smaller than their ASX-listed peers; **TMBL is 400 times smaller than the big four in asset size.** Customer-owned banks are disproportionately burdened by any fixed costs of regulation which in turn inversely impacts competition.

We face a tsunami of regulatory change according to our industry body COBA: *'Research shows that business model diversity is an important aspect to systemic stability. Mr Lawrence also called out the 'group think' of investor-owned banks that currently dominate the market and subsequent regulator mandates, highlighting the risk of an environment that assumes the default of these business models in policy and decision-making. Explicitly recognising corporate diversity in regulator mandates will entrench it as a default consideration when designing regulation. This will ensure Australia does not end up with a regulatory environment that assumes the default of an investor-owned business model'.*[2]

The ACCC[3] has reported that there is an '*oligopoly market structure in which the big four banks collectively have about an 80 per cent share'*.

TMBL has committed considerable effort and resources into becoming a world leading socially responsible bank and we hope this will be reinforced in the SFS roll out. We encourage Treasury to look to the mutual banking sector for examples of '*clear and credible leadership in sustainable finance*'. We are concerned that elements of the Sustainable Finance Strategy including the taxonomy, labelling and green financial markets may be skewed towards the interests of the Big 4 banks, whilst of course they are critical for delivery given that they have $4 trillion of assets, the SFS has also recognised the need for a *'wide range of actors'*.

B Corp Certification is a powerful and world leading framework, **and it is a little known fact that the B Corp finance sector is worth c.$300 billion in Australia.** There are eight B Corp mutual banks worth c.$60 billion, 17% of the global bank total, alongside 15 other finance companies , including First Sentier, a $220 billion funds company. **B Corp Certification is world leading and Australia leads the world in B Corp finance.**

The ASFI taxonomy report March 2023 stated clearly that '*Credibility was the **most important**[4] principle for taxonomy design because it promotes trust (and therefore usability) and a science-based approach, as well as seeking to address the risk of greenwashing*". External verification is commonly understood to be important antidotes to greenwash, as for example the ACCC has highlighted[5].

The CEI (Climate Energy Finance) further noted[6] the issues with other taxonomies with poor design credibility issues "*The Canadian taxonomy faced lengthy delays due to vested interests and an inability to resolve differences of opinion in a manner that remained faithful to the goal and, after significant delay, was passed through with stronger rules around fossil fuel assets. The European Commission faced the threat of legal action after the EU taxonomy codified some use cases for gas and nuclear in their green label. It has subsequently faced low levels of adoption after persistent classification changes, and now in the process of revising criteria for stronger frameworks. The UK taxonomy has faced similar delays*".

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[2] https://www.customerownedbanking.asn.au/wp-content/uploads/2023/08/230421-COBA-submission-to-HoR-Economics-Inquiry-into-promoting-economic-dynamism-competition-and-business-formation.pdf

[3] https://www.accc.gov.au/system/files/ACCC%20Residential%20mortgage%20price%20inquiry%20-%20Final%20report%20November%202018_1.pdf

[4] emphasis added by TMBL

[5] https://www.accc.gov.au/system/files/Environmental%20and%20sustainability%20claims%20-%20draft%20guidance%20for%20business_web.pdf

6 https://climateenergyfinance.org/wp-content/uploads/2023/11/Taxonomy_-good-governance-and-a-can-of-worms-1-1.pdf

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Currently APRA is consulting with ADIs that '*bank bills, certificates of deposits and debt securities issued by other ADIs would no longer be counted as eligible liquid assets for ADIs on the MLH regime'*. We don't comment on that process, and note that he final outcome will have an influential impact on our efforts to progress sustainable finance initiatives.

Finally, the key point is that **there is zero financial incentive for wholesale investors to invest in TMBL for sustainability reasons – this has to be changed**.

Climate change and banks

It is the major banks that always have, and continue to finance the fossil fuel industry. Market forces NGO report[7] states that: '*Australia's big four banks have been using smoke and mirrors to continue funding new fossil fuel developments, locking in decades of emissions and worsening risks to the climate and the economy. In the last two years, the big four banks loaned a combined $13.1 billion to the fossil fuel industry. The banks also arranged $2.2 billion through the bond market for fossil fuel companies during this period"*.

The ACF report[8] From Laggards to leaders states; *"This report finds that the climate policies of Australia's biggest banks are failing to deliver. They are not cutting flows of capital to damaging new coal, oil and gas projects. They are not scaling up the climate solutions at the pace we need. And they are lagging far behind comparable jurisdictions such as the United States and the European Union. This report reveals the gaping holes in the big banks' climate policies. While most banks now have policies around not providing direct finance to coal, oil and gas projects, their policies still don't cover the main ways they finance fossil fuel expansion through general use of proceeds finance, bonds and capital markets facilitation"*.

Globally the Banking on Climate Chaos Ngo RAN report[9] states that; "*The 60 largest banks continued to finance fossil fuel companies to the tune of US$669 billion in 2022 alone. Banks have yet to make detailed, time-bound, public commitments to phase out financing for new fossil fuels, even though expansion now is fundamentally incompatible with limiting global temperature rise to less than 1.5˚ C. Throughout 2022, banks touted their net zero commitments and their 2030 emissions targets, but there are serious loopholes and inconsistencies"*.

Our seven inputs

1. Adopting a proportional and principles based approach

The Government's approach to labelling should be principled and proportional, not result in undue costs that would have the impact of making frameworks for smaller players cost prohibitive, and introduce unintended consequences, such as a skew to the Big 4.

The SFS should not become another operational cost for smaller mutual banks that could dampen competition in an already consolidated banking environment. Ensuring that SFS requirements are proportional to a banks' financial footprint, with larger players with institutional banking arms being required to do more to lift SFS practices.

For smaller players like TMBL there are material resourcing issues (staff and $$) for the additional, complex climate and sustainability data, reporting and regulatory requirements.

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[7] https://www.marketforces.org.au/campaigns/banks/banking-climate-failure-2023/

[8] https://assets.nationbuilder.com/auscon/pages/22443/attachments/original/1691718063/Banks_Net_Zero_Benchmarking_Report.pdf?1691718063

[9] https://www.ran.org/wp-content/uploads/2023/04/BOCC_2023_vF.pdf

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2. Formally recognise existing leadership standards

The SFS scheme should incorporate and formalise in their labelling and taxonomy, existing world class leadership frameworks: B Corp Certification, RIAA product Certification and RIAA Responsible Investment Leadership classification. For example, all our wholesale products are certified by RIAA, one criteria being that we don't directly invest in the fossil fuel industry. These high standards also help to address greenwashing issues.

We understand that legislating - if that is the method chosen - B Corp or RIAA is complicated, yet the principle of equivalence can be applied. Setting up laws that would in effect 'ban' B Corp banks is not a good outcome. Similarly, the RIAA Responsible Leaders group of 54 finance companies worth $1.4 trillion is a ready-made leadership class.

3. Standards set a floor not a ceiling

It is impossible to prescribe, by formal Government standards, every conceivable investment method, philosophy, by type and model, and for mutuals even more so. It would be a perverse outcome indeed if the stated priority to '*make Australia a global sustainable leader*' disadvantages our bank that is already a global sustainability leader, or undercut the $40 trillion RIAA industry leadership standards.

4. Formal classification of fossil-fuel industry free banks with a greenium

Like many mutual banks, we do not directly invest in or take funds from the fossil fuel industry. This should be formally classified in the taxonomy and labelling, and would support credibility in terms of greenwashing. We support assigning entity and wholesale product classification on the basis of fossil fuel industry free industry benchmarks. The SFS should support those parts of the financial system that are already fossil- fuel free and recommend that the taxonomy implement green assets first, in tandem with a transition taxonomy.

5. Unlocking capital in mutuals

TMBL has c.$3 billion in wholesale assets and liabilities, this is relatively liquid, and e.g. $1.4 billion has a maturity of less than 12 months[10]. Labelling wholesale securitised products and Counterparties with sustainable and climate criteria at a favourable price would trigger funding in our bank, as well as our investment in other ADIs, bonds, notes etc.

We currently have no benchmarks to assess our wholesale book for sustainability or climate criteria and with clearer labelling we could apply that over time to the $3 billion. We are interested to invest in Government green bonds if pricing is competitive, and subject to APRA, credit rating, tenor and liquidity requirements, and scaled for mutual banks. Such investment would be on behalf of 234,000 citizens and could be conceived perhaps as 'Climate community bonds'.

The Government's green bond and green markets focus should also include a focus on aligning prudential capital of ADIs with net zero emissions and fossil fuel free objectives. Models could include use of green asset ratios as part of prudential capital requirements, so the role of APRA is crucial.

6. Sustainable banks not just sustainable products

Entity as well as product led classification will support the stated aim for systematic changes, and to counter concerns about 'green loans from dirty companies'. This is even more important for our mutual retail bank as our balance sheet is comprised of mostly cash, mortgages and securities.

7. Innovation in global leadership

There are opportunities for the Government to foster global leadership via innovation, e.g. by examining new instruments like B Corp bank bonds, showcasing the $300 billion B Corp finance community and the burgeoning fossil fuel free finance banks on the global stage of COP31.

[10] TMBL Annual Report P.89 maturity profile

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These point all specifically align with the ASFI recommendations 3, 6,10,11 and these SFS points;

- 'Position Australia as a **global sustainability leader**
- Markets are increasingly focussed on sustainability issues that extend beyond climate change.
- **Maximising alignment with global frameworks** for sustainable finance is necessary to ensure comparability and **minimise compliance burdens** and costs for Australian and international firms and investors. An Australian taxonomy will support international alignment and **interoperability with other sustainable finance frameworks** and taxonomies,
- **Improving sustainability labelling** for investment products – to provide more consistent information on the design and sustainability characteristics of products labelled as 'green', 'sustainable', 'ESG' or similar. Develop a **labelling system** for investment products marketed as sustainable.
- Australia should take a **high-ambition approach**. To be effective, Australia's sustainable finance arrangements must be aligned with science-based global climate and sustainability goals, and with Australia's policy targets and commitments. They should **encourage high-ambition approaches by firms**, institutions and entities, including where **these go beyond baseline standards** established by regulation and policy.

ASFI taxonomy recommendations

- **Recommendation 10**. The Australian taxonomy should include criteria to demonstrate taxonomy alignment by: Evaluating funding recipients against **entity-level criteria**, where finance is issued to an entity for general use of proceeds. Evaluating an activity or asset against activity-level criteria, where finance is issued to a funding recipient for specific use of proceeds.
- **Recommendation 11.** Australia should adopt a traffic-light colour coding framework to communicate and distinguish between: 1. Green activities: aligned to the taxonomy objectives; 2. Transition activities: on a pathway to alignment with the taxonomy objectives
- **Recommendation 3.** Excluded activities: unsustainable or **do significant harm and**/or have no credible pathway to alignment with the taxonomy objectives.
- **Recommendation 6.** The taxonomy design should adopt existing criteria from **other international taxonomies or reporting standards** that are credible and can be readily adapted to meet the needs of the Australian taxonomy.

Thank you for taking the time to read our submission.

Sincerely,

Corin Millais
Head of Socially Responsible Banking, Teachers Mutual Bank Ltd

Further background

Our ESG and sustainability credentials

1. TMBL is a Certified B Corp Bank, one of 47 in the world.
2. ESG exclusions and policies apply to 100% of lending and investment, and 100% of Assets and Liabilities, and embedded in our lending and investment practices, in our Board approved Lending Risk, Treasury Credit Risk, Wholesale funding and Risk Appetite policies.
3. The only bank named as a Responsible Investment Leader by RIAA in 2023, 2022 and 2021.
4. As of June 30 we have $12.3 billion of RIAA Certified products on the balance sheet.
5. Awarded Fossil-Free Certification by independent NGO Bank Green part of its Fossil Free Alliance campaign for consumers.
6. Named as One of the World's Most Ethical Companies 2023 for 10 years in a row (2014-2023).

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7. Recognised by Financial Times as one of the top tier Climate Leaders in Asia-Pacific 2023.
8. ESG exclusions means that we don't directly invest in, or take money from, the fossil fuel industry 'The Bank does not accept wholesale funding (i.e. cash, term deposits) from, or issue debt securities to, counterparties that directly operate in Fossil fuels industries (coal, oil and gas - exploration for and extraction of reserves, exports, combustion for power generation, major suppliers to the oil, coal and gas industries)'.

Our ASFI membership

Australian Sustainable Finance Institute (ASFI) spotlighted TMBL as the Case Study for embedding sustainability in organisational leadership and practice in the 2022 Australian Sustainable Finance Progress Tracker Second report on implementation of the Australian Sustainable Finance Roadmap. 'Embedding Sustainability into Leadership' is one of the four key report recommendations.
TMBL is also a member of the ASFI Leadership Working Group that focuses on transformation and ambition, with the Deloittes Sustainability DNA framework.

RIAA product Certification

RIAA's Responsible Investment Certification Program is the leading initiative for distinguishing quality responsible, ethical and impact investment products and services in Australia and New Zealand. RIAA's Responsible Investment Certification Symbol is used to differentiate quality, true-to-label responsible investment products which meet the Responsible Investment Standard.

1. Every single retail mortgage, deposit product and wholesale product sold by the Bank across its five brands is Certified by RIAA as Responsible Investment - these are 98% of all products sold.
2. Any wholesale investor in the Bank is guaranteed that their investment (Wholesale products MTNs, NCDs, TDs) is a Certified Responsible Investment.
3. For every product sold, there is zero cost to the consumer. Any consumer buying any retail mortgage or retail product sold by our five brands is guaranteed that this is a Certified Responsible Investment.
4. As at 30th June 2023 the cumulative total of all wholesale and retail assets and liabilities on the balance sheet that are RIAA Certified products is $12.3 billion, which is a 56- fold increase from $220m in 2018. This $12.3 billion is 51.7% Assets and 64.7% of Liabilities.

RIAA Responsible Investment Leadership

A Responsible Investment Leader is the highest possible standard for investors. A Responsible Investment (RI) Leader is a responsible investor that demonstrates an exceptional ability to deliver on its responsible investment promises, and uses a rigorous and leading approach.

1. TMBL is the only bank in Australia recognised by RIAA as a Responsible Investment Leader for 3 years in a row 2021 to 2023.
2. Of the 54 Responsible Investment Leaders worth $1.3 trillion, TMBL ranked 11th ahead of 80% (43) of other RI leaders. Our score of 91.5% increased from 82.5% with the broader survey average being 51.5%.

B Corp Certification

The combination of third-party verification, public transparency, and legal accountability makes B Corp Certification unique, credible, and significant. Unlike other certifications for businesses, B Lab is unique in its ability to measure a company's entire social and environmental impact across all operations. Unlike traditional corporations, B Corps are legally required to consider the impact of their decisions on all stakeholders: customers, workers, communities, and the environment

B Corp Certification is a rigorous, verified performance assessment across 5 areas: Governance, Workers, Customers, Community, Environment, with a minimum score of 80 points. The process involves more than 300 scored questions, multiple verification rounds, a series of interviews and data provision. The process took us over 12 months to complete. After completing the B Impact Assessment, companies undergo a multi-step verification process to determine if they meet the 80-point bar for Certification. Companies also must meet certain transparency requirements to become Certified B Corps, as laid out in the B Corp Agreement.