CHAPTER 2 – BACKGROUND

2.1 The Australian financial system is undergoing a period of substantial change, the impact of which is transforming the delivery of banking and like services. The changes include an increase in the number of players and types of organisations involved in the delivery of financial services. They also include a significant increase in the number of alternative channels available for the delivery of services. Most of these channels are electronically based and include Automatic Teller Machines (ATMS), Electronic Funds Transfer at Point of Sale (EFTPOS), telephone banking and internet banking.

2.2 These developments have the potential to significantly enhance the access that communities have to financial services. However, the introduction of these channels has been accompanied by a process of the rationalisation of the traditional bank branch network. Although this process has affected urban and rural areas, its impact has been particularly serious for regional and remote communities. For many of these, it has resulted in reduced access to or loss of banking and like services.

2.3 The methods of delivering financial services will continue to evolve as financial institutions respond to changes in the global and local business environments in which they operate and as developments in technology continue to refine existing mechanisms and create new ways for delivering banking and like services. The issue at the heart of this inquiry is change. Communities are in a period of transition as they adapt to a myriad of changes in the systems in which they operate. The Committee's main concern has been to find ways of ensuring that communities in regional and remote Australia, particularly those least able to take advantage of the new technology, maintain reasonable access to banking and like services in the short term and, ultimately, gain improved access in the long term.

Changes in the delivery of financial services - a statistical portrait

2.4 The Committee had difficulty in forming a precise picture of the changes occurring in the delivery of financial services in regional and remote Australia from the statistics available. The following details have been gleaned from data from the Reserve Bank of Australia, the Australian Financial Institutions Commission (AFIC), state government reports on bank closures and various submissions.

Branches and agencies

2.5 Statistics concerning the numbers of bank branches and agencies are contained in the Reserve Bank of Australia Bulletin each September. The following table compiled from this data reveals a steady decrease in bank branch numbers since 1993 in both metropolitan and other areas.

2.6 The figures for agencies do not show a consistent trend while the figures for giroPost show a steady increase since its inception in 1995.

Table 2.1: Bank Branches and Agencies 1990 to 1998

	Branches		**Agencies**		
As at 30 June	Metropolitan	Elsewhere	Metropolitan	Elsewhere	giroPOST
1990	4028	2893	3506	4206	
1991	4049	2868	3126	4174	
1992	4032	2888	2736	3846	
1993	4118	2946	2563	3725	
1994	4075	2672	3136	2590	
1995	3990	2665	3302	2595	
1996	3879	2629	3599	3351	2557
1997	3499	2622	3625	3367	2627
1998	3190	2425	3232	3135	2720

Source: Bulletin. Reserve Bank of Australia, Tables B.22 and B.23, Various Issues

According to Dr Walker, from Charles Sturt University, the RBA statistics are distorted by two processes acting on the financial system. The first is bank mergers, which distort the statistics for the four largest banks. Mergers mean that these banks acquire networks of branches, increasing their branch numbers to give a false impression that only a small number of branches are closed.[1] Walker sites the increase in branch numbers for the four largest banks between 1990 and 1992 (1,011 branches) as being largely due to merger activity. He notes that at this time 666 other bank branches closed. Between 1992 and 1998, bank branch numbers for the major banks decreased by 1,228. Once again, merger activity makes this figure a significant underestimate.[2]

2.7 The second process distorting the RBA statistics is the number of new entrants who have come into the industry. Many of the new banks formed since 1990 were initially building societies with extensive branch networks. These new banks add significant numbers to the branch statistics, but the impression on the statistics is misleading and masks the extent of the process of bank closures. Probably the biggest example of this process was the creation of St George Bank in 1993 which ‘increased

1 Walker, G., Corby, D & Murphy,T. 1997, Finance restructuring: Implications for regional Australia, paper presented to the 15th Pacific Regional Science Conference Organisation, 8-12 December, p 9 (Submission no 7, vol 1, p 55).

2 ibid. p 8.

the official bank branch statistics by 280 but did not alter the total number of financial service provider branches.'[3]

2.8 Table 2.2 shows the net change in branches for the four major banks and all banks. As can be seen, the total reduction in branch numbers is 960 in the nine years covered by the table. However, many more branches have actually closed.

Table 2.2: Major Bank Branches and Agencies in Australia

Branches	**ANZ**	**CBA**	**NAB**	**WBC**	**Total Majors**	**Total All Banks**
1990	1,092	936	1,286	1,301	4,615	6,575
1998	820	1,218	1,048	1,016	4102	5615
Net Change	-272	+282	-238	-285	-513	-960
Agencies						
1990	625	5,121	159	318	6,223	8,072
1998	125	4,015	94	160	4,394	6,367
Net Change	-500	-1106	-65	-158	-1,829	-1,705

Source: Dr Greg Walker, Submission no 7 vol 1, p 55; and Reserve Bank of Australia, Bulletin, September 1998.

2.9 Research by Argent and Rolley also suggests that the RBA figures underestimate the number of closures, at least for New South Wales, the area covered by their study. They claim that the 'conventional official "metropolitan/non-metropolitan" split of branch numbers as a surrogate for urban and rural financial service delivery has served to disguise the real trends in the reconfiguration of the rural branch network'.[4] They argue 'that a more sensitive and geographical classification instrument is required to thoroughly investigate the impact of post-financial deregulation branch network restructuring on New South Wales rural communities.'[5] Appyling the Rural, Remote and Metropolitan Areas (RRMA) Classification[6] to a telephone directory database[7], they concluded that the official metropolitan/non-metropolitan spilt overstates the actual rural branch numbers by

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3 ibid. p 9.

4 Submission no 120, vol 5, p 973 (Dr Neil Argent & Dr Frances Rolley).

5 ibid. p 10.

6 The Rural, Remote and Metropolitan Areas Classification classifies all statistical local areas in Australia according to remoteness.

7 The data they used was collected from telephone directories that closely approximated the numbers and trends in the official data from the RBS and ABS on bank branch numbers.

between 300 and 350.[8] They estimate that New South Wales rural and remote regions lost 22.9 per cent and 30 per cent of their branches from 1981 to 1998 respectively. [9]

2.10 Beal and Ralston also consider that the term non- metropolitan, in its inclusion of both rural and coastal areas, 'masks the underlying dynamics in the bank distribution system and the actual reduction in branches in rural and remote communities.' [10] On the basis of RBA figures for 1993-96, they suggest that 'perhaps as many as one in three major bank branches in rural communities have been closed over the past three years.'[11]

2.11 The RBA figures do not reveal how many of the closures across regional Australia left communities without a branch. Some information is available for New South Wales. Statistics on bank closures in New South Wales between 1994 and 1997 published in the Department of Fair Trading's Report of the New South Wales Regional Banking Forums indicate that 124 branches outside Sydney had closed in that time, affecting 106 communities and leaving 36 without a bank branch.[12]

2.12 The National Farmers' Federation reported that there are approximately 600 communities in rural and regional Australia without access to a financial institution.[13] Given the impact that the closure of a last or only bank branch has on a community, it is important that information on the number of communities without branches is collected. This information needs to indicate alternative mechanisms available in these communities. This point is elaborated upon at paragraph 2.29.

Credit unions and building societies

2.13 Statistics relating to the number of branches and agencies of building societies (table 2.3) and credit unions (table 2.4) are collected by the Australian Financial Institutions Commission (AFIC). The latest figures are for 1 June 1998, when building societies had 392 branches and 813 agencies, and credit unions had 917 branches and 838 agencies.[14]

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8 Submission no 120, vol 5, p 981 (Dr Neil Argent & Dr Frances Rolley).

9 ibid. p 1

10 Beal, D. & Ralston, D. 1997 *Economic and Social Impacts of the Closure of the Only Bank Branch in Rural Communities*, Centre for Australian Financial Institutions, University of Queensland, report prepared for CreditCare, p 5.

11 ibid. p 6.

12 New South Wales Department of Fair Trading. 1997. *Banks: Are You Being Served: Report of the Regional Banking Forums*. Sydney, Department of Fair Trading, pp 28 – 32.

13 Submission no 22, vol 1, p 122 (National Farmers' Federation)

14 Australian Financial Institutions Commission. 1998. *National Statistics: Credit Unions: June Quarter 1998*. Brisbane, AFIC, p 4.

Table 2.3 ***Number of Building Society branches and agencies.***

	June 93	June 94	June 95	June 96	June 97	June 98
Number of Branches	601	590	605	528	381	392
Number of Agencies	1,439	1,603	1,475	994	848	813

Source: Australian Financial Institutions Commission

Table 2.4 ***Number of Credit Union branches and agencies.***

	June 93	June 94	June 95	June 96	June 97	June 98
Number of Branches	918	950	994	1,008	1,010	917
Number of Agencies	1,206	1,125	1,158	1,090	912	838

Source: Australian Financial Institutions Commission

2.14 The AFIC figures indicate that there has been a steady decline in the number of building society branches and agencies since 1996. The statistics reveal no significant change in credit union branch numbers. However, credit union agency numbers have shown signs of decline since June 1997.

2.15 Shortly before the finalisation of the report, the ABA supplied the Committee with some information on the access communities had to over-the counter financial services in towns where a bank had closed its only branch.[15] It identified 313 towns as fitting this criterion. Towns where alternative forms of over the counter service delivery have been put in place such as Bank SA Electronic Agencies or BankWest Superagents were not included.

2.16 The following bar graph shows a correlation between population and the distribution of closure of a bank's only branch.

15 Submission no 149 , vol 6, pp 1200-1204 (ABA).

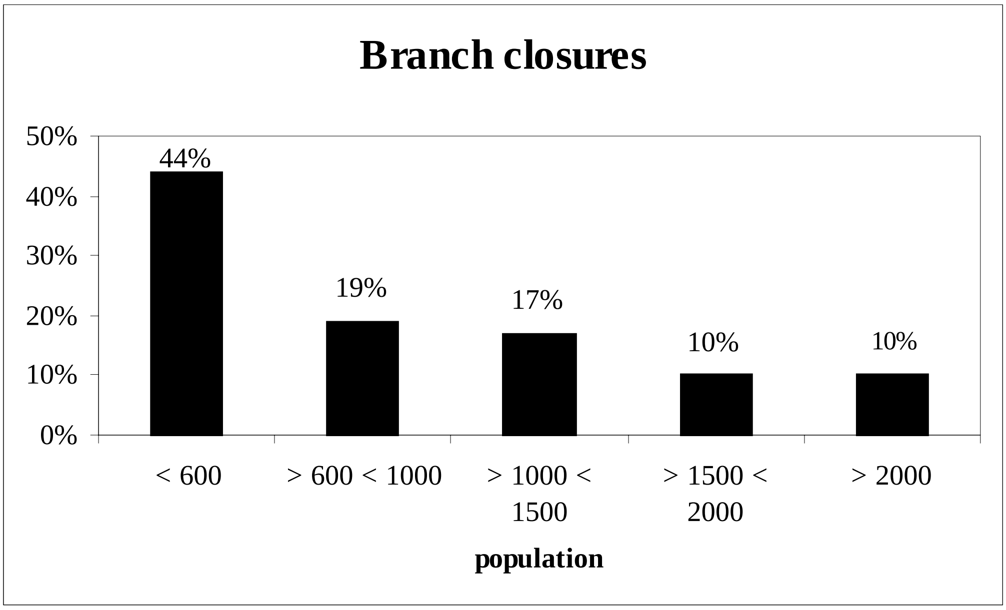


Figure 2.1 Distribution of closure of a bank's only branch by town population.

2.17 Towns with populations of less than 1000 account for over 50 per cent of towns where banks have closed their only branch in town. Towns with populations of less than 600 account for nearly 44 percent.

2.18 The following figures show the level of access the proportion of towns within the population group size have to other bank's branches, Australia Post agencies and giroPost.

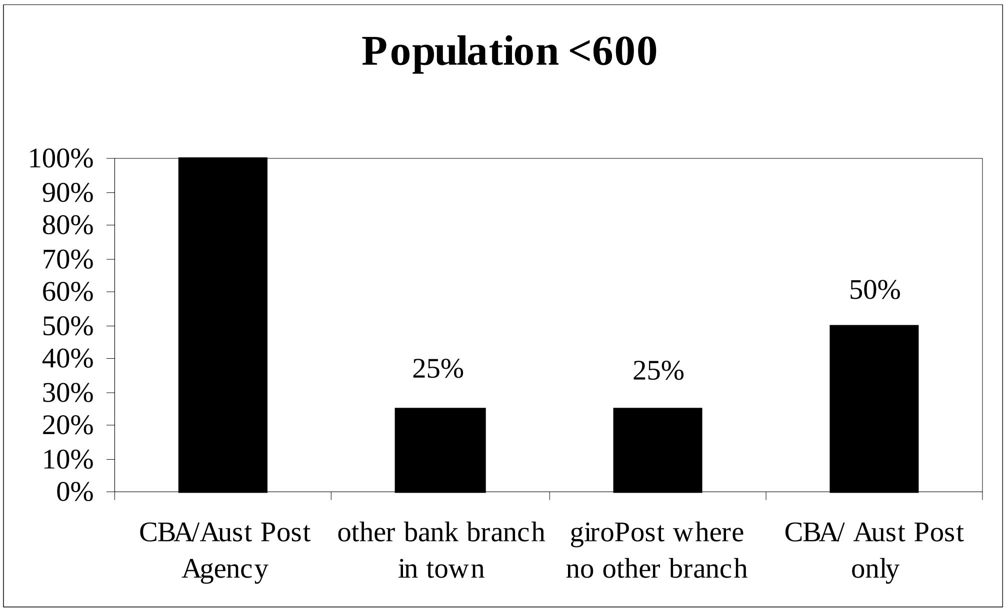


Figure 2.2 Access to other bank's branches, Australia Post agencies and giroPost in towns with population <600

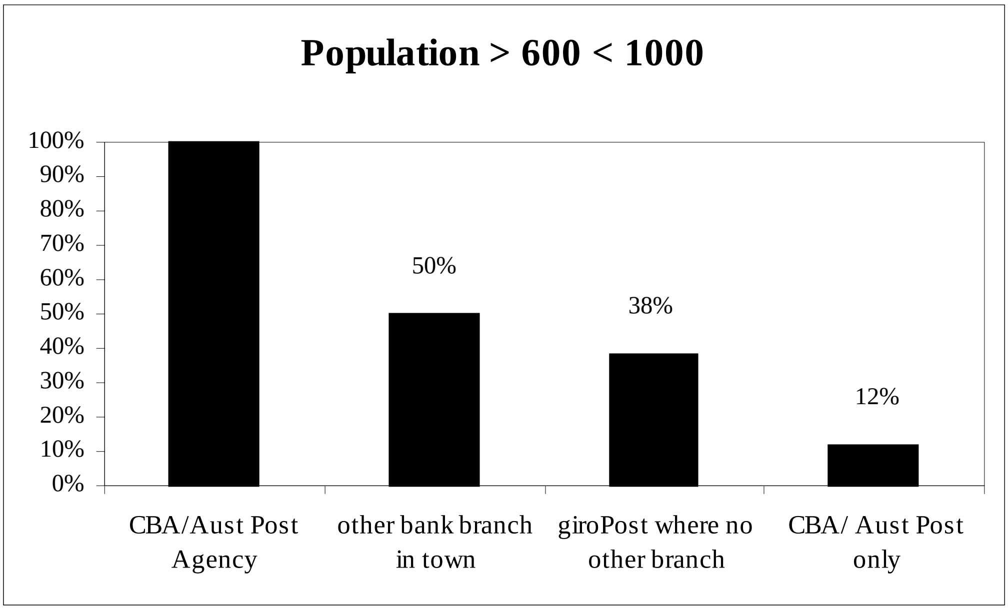


Figure 2.3 Access to other bank's branches, Australia Post agencies and giroPost in towns with population >600<1000

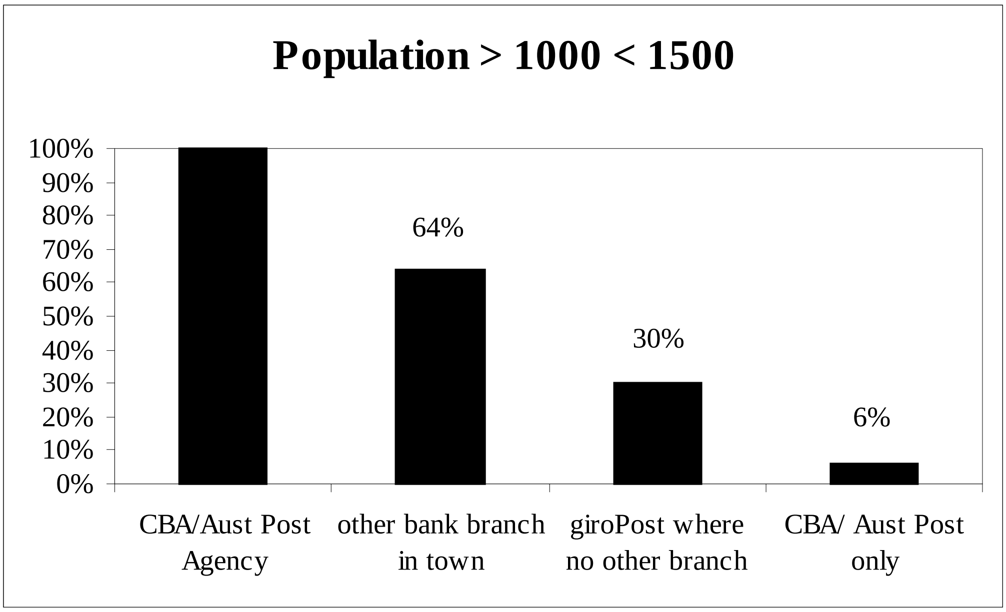


Figure 2.4 Access to other bank's branches, Australia Post agencies and giroPost in towns with population >1000<1500

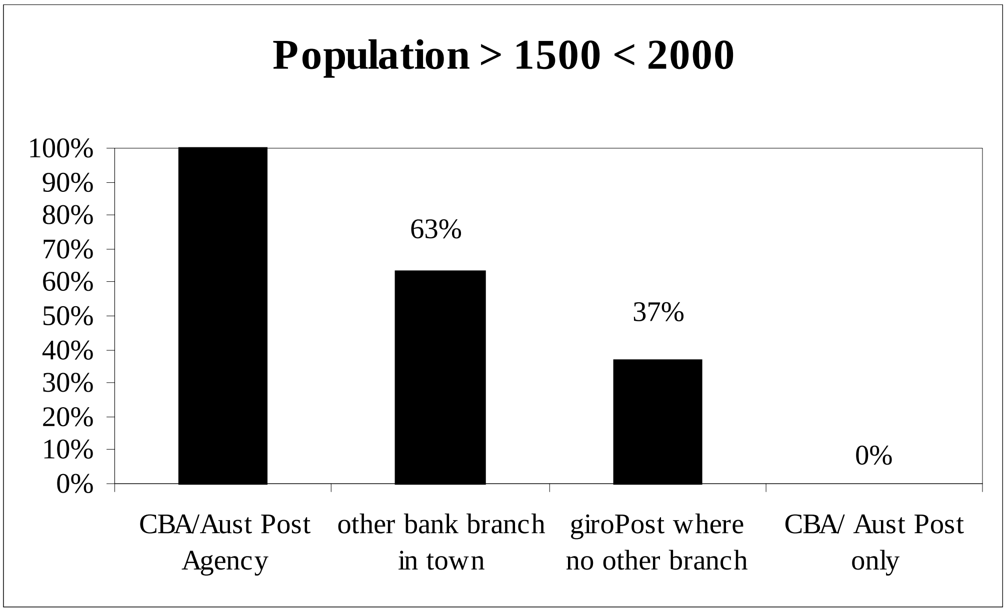


Figure 2.5 Access to other bank's branches, Australia Post agencies and giroPost in towns with population >1500<2000

2.19 The data clearly shows that the towns with least access to services are the smallest towns. Of the 313 towns, virtually all have access to basic pass book services through a CBA/Australia Post agency. Fifty percent of towns with populations of less than 600 only have access to a CBA/Australia Post Agency. As only 25 percent have access to another bank's branch in town, 75 percent of towns are effectively without access to business banking. Approximately 35 percent of towns with population between 1000-2500 do not have access to business banking. Interestingly, this proportion is similar for towns with populations between 1000-1500 and towns with populations between 1500-2000.

2.20 The Committee appreciates the efforts made by the ABA in compiling this data. It is a step towards producing the data that is necessary for sound policy development and the effective targeting of programs designed to enhance the access regional and remote communities have to financial services.

2.21 Although the data supplied to the Committee does not identify the towns concerned, clearly this information has been collected. The Committee suggests that it may be useful to those implementing the Rural Transactions Centres Program.

2.22 In February 1999, the ABA released a report, *Banking in the Bush: the Transition in Financial Services,* prepared for the Association by the University of Southern Queensland's Centre for Australian Financial Institutions (CAFI) which had also undertaken the study of the impact of bank branch closures on rural communities referred to at 2.71. This latest study relied on a householder survey for its base data.

2.23 In the 1999 study, the authors returned to six of the rural towns included in the 1996 study to examine how communities had adapted to not having a local bank branch. They concluded that while 'the initial impact of branch closure was significant to the economy of the towns examined, changes over the intervening period appear to have been for the better as communities make the transition to living without a local bank branch'.[16] The Committee notes that of the six towns studied three had attracted credit unions, another had a building society and another had retained a bank branch.

2.24 The authors found evidence which suggested that the respondents' long term outlook had improved and that a period of adjustment had taken place. They advised that compared with two years previously two thirds of respondents reported that the convenience of financial services was the same or better, and that just over a half of respondents found the range of services to be the same or better.[17] According to the authors, 'this may be due to the fact that each of the towns surveyed now has additional EFTPOS outlets, telephone and Internet banking are now more widely available, and three of the six towns have attracted a credit union'.[18]

2.25 The renewed confidence reported in this study is similarly reflected in a study commissioned of the same authors by CreditCare in 1998. The study focussed on 4 communities in which credit unions had opened following the closure of the town's last bank branch. Approximately 87 percent of respondents reported that they had become more optimistic about the future viability of the town following the opening of a credit union.[19]

2.26 The studies clearly suggest that communities can adjust to the closure of bank branches where this is accompanied by the establishment of alternatives such as credit unions or other over-the-counter services and the increased availability of self-services methods of banking such as EFTPOS, telephone and Internet banking. They confirm the view taken by the Committee that what is important is providing communities with the means to adjust to changes in the delivery of services.

2.27 As is apparent from the preceding discussion, the statistical information that is readily and officially available is of limited use in compiling a picture of the delivery of financial services through branches and agencies. Additional limitations to those outlined above include the fact that the statistics on credit unions and building society branch and agency numbers are not differentiated for geographical location at all. The fact that the RBA figures and AFIC figures are taken at slightly different dates also makes it difficult to combine the data for statistical purposes. With the blurring of the distinction between banks and other deposit taking institutions that will be facilitated by the implementation of the Wallis reforms, it is essential that information is collected on all institutions in a uniform manner. The Committee expects that the act of bringing all deposit-taking institutions under a single regulatory structure will facilitate this happening.

2.28 It is inevitable that the delivery of financial services will continue to change in the foreseeable future. It is imperative that governments and peak bodies for the

16 Centre for Australian Financial Institutions. 1999, *Banking in the Bush: the Transition in Financial Services*, University of Southern Queensland, report prepared for the ABA, p 28.

17 ibid. p 29.

18 ibid. p 29.

19 CreditCare Press Release, 7 December 1998

financial institutions monitor the impact of these changes on the access communities have to financial services. In order to do this, they require comprehensive information. The approach taken by the Western Australian Regional Taskforce for its Report on the Withdrawal of Banks from Country Towns is a step in the right direction. The data shows the number of branches, bank agencies, building societies or credit unions, Australia Post outlets and giroPost facilities for each country shire with a population between 0 and 2000. Although the data only provides a snapshot for 1996, it is useful for identifying areas with limited access at that point in time.

2.29 Statistics should differentiate the nature of the institution (bank, building society, credit union, giroPost), the level of service provided (full branch, instore branch, agency) and be able to be disaggregated according to the name of the service provider and the state of territory. The statistics should be able to be used to indicate the actual numbers of branches and agencies closed and opened, in addition to the overall change in numbers. They should also be differentiated on the basis of a more accurate and sophisticated classification of location, such as the Rural Remote and Metropolitan Areas classification.

2.30 **Recommendation (2)**

That the Minister for Regional Services, Territories and Local Government and the Minister for Financial Services and Regulation, in consultation with State colleagues, undertake a collection of comprehensive data on the access communities have to financial services.

Bank branch density and international comparisons

2.31 A number of submissions claimed that international comparisons for bank branch density were being used to justify the rationalisation of bank branch networks. Walker described benchmarking against the lowest branch density countries as a ‘popular approach and the basis of predictions for the need for large scale closures of branches.’[20] The Committee notes that this was not used as an argument by either the ABA or any of the major banks in explaining the changes in the delivery of services. Nor in its opinion should it be. As pointed out by the RBA in its submission to the inquiry, a number of caveats have to be made when making international comparisons about banking systems, These stem from differences in the structure of the financial systems and population densities.

2.32 It is nevertheless interesting to note that over the period 1983-1992, the number of bank branches per million inhabitants declined in most developed countries. In 1992 Australia had the third highest number of bank branches per million inhabitants. In 1996 its ranking had fallen back to around the middle of the range. The data also reveals that bank branch representation has been consistently higher outside capital cities than in capital cities and that this representation outside

20 Walker, G., Corby, D & Murphy,T. 1997, Finance restructuring: Implications for regional Australia, paper presented to the 15th Pacific Regional Science Conference Organisation, 8-12 December, p 7 (Submission no 7, vol 1, p53).

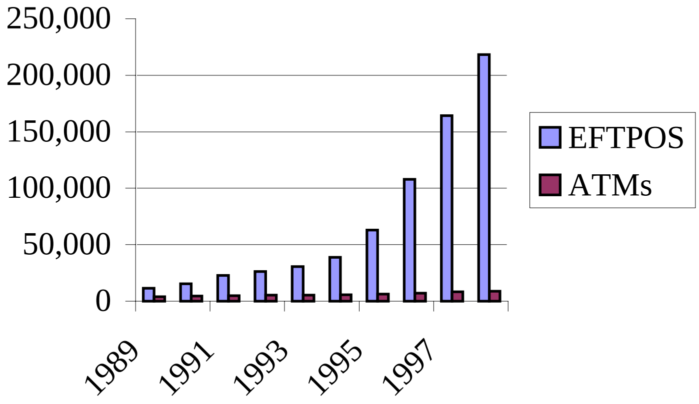
capital cities has been steadily declining. The information contained in the submission did not indicate whether it was declining at a faster rate outside capital cities.[21]

Electronic channels and outlets

2.33 Statistics in relation to technology based banking come from a wide range of sources, and cover Automatic Teller Machines (ATMs), Electronic Funds Transfer at Point of Sale (EFTPOS), telephone banking and internet banking.

2.34 Statistics on numbers of ATMs and EFTPOS machines are collected by the Australian Payments Clearing Association (APCA) and are at Figure 2.6. ATM numbers have almost doubled from 4 073 to 8 814 from when statistics were first collected in June 1989 to the latest collection in June 1998.[22] EFTPOS terminals have experienced significantly greater growth, from 11 452 to 218 330 over the same period.[23] Evidence provided to the Committee indicates that ATMs and EFTPOS machines are not as widely distributed in rural and regional areas as they are in urban areas.[24]

Figure 2.6 EFTPOS and ATM Terminals



Source: Australian Payments Clearing Association. Figures supplied.

2.35 Statistics on ATM and EFTPOS usage can be obtained from two sources. The first is the Wallis Inquiry, which provides a snapshot of use of different channels in September 1996. ATM and EFTPOS usage made up 23 per cent and 19 per cent of transactions respectively at this point in time.[25] Statistics on the use of electronic

21 Submission no 110, vol 5, p 916, 920(RBA).

22 Information Supplied by the Australian Payments Clearing Association.

23 ibid.

24 For ATMs see Australian Bankers Association supplementary submission no 122, vol 5, p 1006 and the Regional Financial Services Taskforce. December 1997. *The Report of the Regional Financial Services Taskforce to the Deputy Premier Concerning the Withdrawal of Banks from Country towns*. Perth, WA Ministry of Fair Trading, p 12. For EFTPOS see the Regional Financial Services Taskforce, ibid.

25 Submission no 80, vol 3, p 606 (ABA).

forms of banking were collected by the Australian Bureau of Statistics in a survey on the use of internet by households in May 1998. These statistics indicate that in the three months to May 1998, 68 per cent of adults had used ATMs and 59 per cent of adults had used EFTPOS.[26] The ABA contends there are around 400 million ATM transactions a year.[27]

2.36 The Wallis Inquiry data indicated that 2 per cent of all banking transactions in September 1996 were conducted using the telephone.[28] The Commonwealth Bank, in its evidence to the Committee indicated that it had 1.8 million registered telephone banking users.[29] The ABS May 1998 figures (Figure 2.7) include bill payment by telephone, and therefore do not accurately reflect phone usage for banking purposes. The ABA estimates that over 40 per cent of telephone banking calls are made by the rural and regional population.[30]

2.37 According to the Wallis Inquiry data, 0.1 per cent of transactions were undertaken using personal computers in September 1996.[31] In May 1998 the Australia Bureau of Statistics undertook a study into household use of the internet. As part of that study, the ABS found that internet banking made up less than 1 per cent of all adults conducting electronic banking transactions.[32] The ABS statistics are contained at Figure 2.7. The Australian Bureau of Statistics also provides comprehensive information on internet usage in rural and regional Australia. The data indicates that 8 per cent of households outside capital cities had access to the internet.[33]

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26 Australian Bureau of Statistics May 1998. *Use of the Internet by Householders*. Cat. no. 8147.0, ABS, Canberra, p 7.

27 Submission no 80, vol 3, p 613. (ABA).

28 ibid. p 606.

29 *Transcript of evidence*, Canberra 28 May 1998, p 489 (Mr Long).

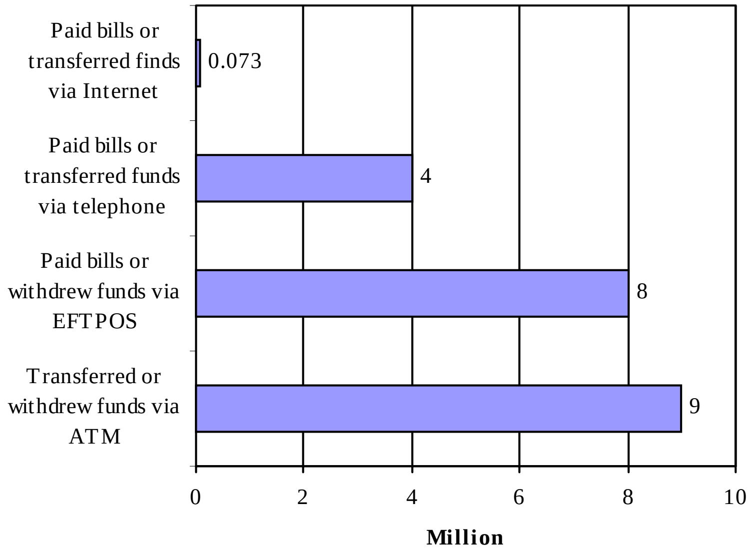
30 Submission no 80, vol 3, p 614 (ABA).

31 Australia. Financial System Inquiry 1997. *Financial System Inquiry Final Report* (Wallis Report), p 450.

32 Australian Bureau of Statistics May 1998. *Use of the Internet by Householders*. Cat. no. 8147.0, ABS, Canberra, p 7.

33 ibid. p 4.

Figure 2.7 Electronic methods of payment of bills and funds transfer by Australian adults in the three months prior to May 1998



Source: Australian Bureau of Statistics. Use of Internet by Householders. May 1998.

2.38 In terms of technological alternatives to services provided by bank branches, the statistics indicate the use of EFTPOS is pervasive in the Australian community with the availability of EFTPOS machines growing exponentially. ATM usuage appears to be relatively steady. Telephone and internet banking are both claimed to be significantly increasing. However, the latter is still in its infancy as a real alternative for banking services.

2.39 Although the statistics available on the delivery of financial services are far from comprehensive, they clearly demonstrate that Australians are embracing electronic channels for the delivery of financial services and that this is occurring against a backdrop of branch closures. The causes and impact of these changes are described below.

Forces shaping delivery of financial services

2.40 The Wallis Inquiry described the changes that are occurring in the financial landscape and identified a number of the factors driving these changes including the changes in the regulatory framework, the globalisation of markets, changes in customers' needs and technological innovations. According to the banks, demographic factors are also pertinent to changes in the delivery of services to remote and regional Australia.

Competition

2.41 Many of these changes have significantly increased competition in the financial system. The implementation of the reforms of the Wallis Inquiry is likely to intensify this.

2.42 According to the Australian Bankers' Association, the implication of increased competition for banks is 'the need to manage each element of the business on a sound economic footing. Cross-subsidies can no longer be sustained in markets that are being increasingly opened up to more flexible service providers, both domestic and international.'[34] As a result, banks and other deposit taking institutions are increasingly adopting a user pays approach to pricing services.

2.43 In its submission to the inquiry, the ABA used the argument of cross subsidisation to support its claim that banks close branches when the falling levels of economic activity in the town make the branch no longer commercially viable.

> The commercial viability of a branch is dependent on the vitality of the community it serves. Where lending, deposit and transaction levels are stagnant or falling as a result of a slow or declining local economy, the branch becomes a marginal business proposition. The pressure to maximise efficiency and reduce costs to remain competitive means banks can not afford to maintain uneconomic business units.'[35]

2.44 The ABA's point is not about profitability, but of ensuring capital and other assets are deployed to their best advantage. The ABA described the situation as follows:

> Most branches that are closed would be losing money, but that is not really the point. The point is about not getting a sufficient return on the investment. A very high proportion of Australians are investors in banks through their superannuation funds. If banks are going to have areas where they are getting a lower than required return on their investment, they are not going to be strong going forward. They are going to be picked up by their competitors.[36]

2.45 In the course of this inquiry, there were a number of indications that the public believes banks claim they are closing branches because they are unprofitable. To some extent, the banks have contributed to this view as is evident in the following account given of the process involved in deciding to close a bank branch by the Chief Executive of the Australian Bankers' Association.

> The general process is that an individual bank will review the trends in an area. They will look at what has been happening to their business over a long period of time and they will make projections as to what is likely in the future. Not [surprisingly], banks like profitable branches. If the conclusion that an individual bank comes to is that that bank branch is no longer profitable or will not be profitable in the near future then what happens is that, within the bank, work is done on what are the alternative services that may be provided in that particular location.[37]

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34 Submission no 80, vol 3, p 603 (ABA).

35 ibid. p 603.

36 *Transcript of evidence*, Sydney, 18 February 1998, p 16 (Mr Aveling).

37 ibid. p 10.

2.46 Claims of branches being unprofitable were generally not accepted in the community. One witness cited anecdotal evidence that a local manager had admitted the bank was not losing money but rather not meeting the Bank's target.[38] Another expressed his view that 'in a lot of cases it was not that the banks were not making enough money in the towns where they closed, it was just that they were not making enough money for those particular banks.'[39]

2.47 There is clearly a distinction between profitability and expected rate of return. The Committee believes that closing branches in many situations behind a mantle of profitability may be counterproductive and is contributing to the bad feeling evident in the community towards banks. Banks may be underestimating the community's own understanding of the state of the economy of their particular regions. Their claims that the branches they close are unprofitable creates an impression that the towns are undergoing an economic decline and can no longer support a full branch. The evidence demonstrates that this is not always the case. In the Committee's view it is neither fair nor constructive to perpetuate this impression which in some way could be seen to put the responsibility for a bank closing on the community rather than on the banks.

2.48 The Committee accepts that commercial imperatives require banks to act in the best interests of their shareholders. Banks and other financial institutions are entitled to determine the rate of return that they need to achieve on their outlays. However, the decisions they make have repercussions for communities that in some cases have supported them for generations. These communities deserve to be properly consulted about changes and the real reasons driving them. The issue of consultation is discussed in more detail at paragraphs 5.29-5.33.

2.49 The Committee was also concerned at suggestions that banks have in some instances transferred accounts from smaller branches to larger centres without permission from the customers and then at a later date claimed that the branch was unprofitable.[40] Such a practice would significantly affect the profits of the branch losing the account. The Committee does not suggest that where this happens, it necessarily is done with the intention of establishing a justification for closing a branch. However, it does consider it unacceptable that accounts are transferred without prior permission from customers. Such a practice does leave banks open to suggestions that they are closing branches by stealth. The Committee recognises the commercial reality of competitors seeking customers when a branch is under threat of closure. None the less, many local communities have a case to feel poorly treated.

2.50 Given that banks will not maintain 'uneconomic business units', it is in the interests of communities that wish to keep their local branch open to keep their accounts at the local branch. Should a bank decide for whatever reason to move large loans to a regional centre, customers should be given the opportunity to transfer their

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38 *Transcript of evidence*, Sydney, 19 February 1998, p 124 (Mr Drake).

39 *Transcript of evidence*, Hamilton, 29 April 1998, p 390 (Mr Kelly).

40 *Transcript of evidence*, Canberra, 12 March 1998, p 172 (Mr Genovese), *Transcript of evidence*, Hamilton, 29 April 1998, p 384 (Mr Luke).

accounts to any other financial institutions that will offer the service out of a local branch.

2.51 The Code of Banking Practice requires that banks provide written notice of changes to certain terms and conditions of a contract. The Committee considers that changing the branch that manages an account is a significant enough change to the operation of the contract between the customer and bank to be addressed in a similar way in the Code of Banking Practice.

2.52 **Recommendation (3)**

The Committee recommends that the Code of Banking Practice be amended to require banks to give customers two months written notice before transferring accounts between branches without the permission of that customer.

Technological developments as a driver of change

2.53 According to Walker, 'of all the forces for change, it is technology which is the most pervasive.'[41] The developments in technology are enabling financial institutions to offer services in cheaper and more efficient ways.

2.54 The ABA reported in its submission, that evidence given to the Wallis Inquiry 'indicated that a transaction over the counter in a branch is around three times more expensive than an ATM transaction, four times more expensive than an EFTPOS transaction and at least ten times more expensive than a centrally processed (direct credit) transaction.'[42] They attribute the higher costs of the transactions to the high overheads of maintaining a branch, including staff, property, cash movement, security and data links.

41 Walker, G., Corby, D & Murphy,T. 1997, Finance restructuring: Implications for regional Australia, paper presented to the 15th Pacific Regional Science Conference Organisation, 8-12 December, p 4 (Submission no 7, vol 1, p 50).

42 Submission no 80, vol 3, p 606 (ABA).

Table 2.5: Delivery Channel Cost Comparison (indexed)(a)

	In-Branch Cash Deposit/ Withdrawal	Cheque Deposit	Own ATM Withdrawal	EFTPOS	Direct Credit
Institution A	100	-	31	18	-
Institution B(b)	100	80	33	18	3
Institution C	100	109	25	24	10
Institution D	100	121	59	29	-
Institution E	100	116	57	29	7

(a) Figures not strictly comparable between institutions due to different accounting and cost allocation.
(b) Midpoints.
Source: Financial Systems Inquiry Final Report, AGPS, Canberra, March 1997, p.226.

2.55 Although there is some variation in costs between institutions, the benefits to financial institutions of delivering services through electronic delivery mechanisms instead of through traditional teller services is obvious. According to the industry, they are also responding to customers' demands for the convenience of these services.

Demographic Changes leading to changes in the provision of services

2.56 In its opening remarks at the first public hearing for this inquiry, the Australian Bankers' Association claimed that 'bank branches closures are a consequence of demographic change.'[43] It provided to the Committee a report of a study it had commissioned KPMG to conduct into the provision of banking and other services in rural Australia. The objective of the study was to 'examine broad demographic trends that have impacted on rural communities in Australia over the last 20 years (since 1976), and to consider the way in which these trends have affected the provision of community and commercial services, including banking facilities'.[44]

2.57 The KPMG study found that:

- 215 of 456 local government areas designated as rural had been subjected to a sustained process of population loss since 1976
- there was no single geographic or economic denominator linking these 215 municipalities of population loss over the last 20 years. Most, however, were located in the wheat-sheep belt where global pressures for economies of scale are leading to farm amalgamations

43 *Transcript of evidence*, Sydney, 18 February 1998, p 5 (Mr Aveling).

44 KPMG. 1998. *Demographic Trends and Services Provision in Rural Australia*, report prepared for the Australian Bankers' Association, p 5.

- factors that contribute to population loss include the loss of employment options through regionalisation of utilities, service and government administration; corporate mergers and takeovers leading to rationalisation of stock and station agencies and bank branches; increased expectation for education and training by the young and the propensity of shoppers to travel further afield to access goods and services.

2.58 The study also examined five townships and municipalities that had experienced population losses as case studies. The losses ranged between 8 percent and 28 percent. Surrounding farmlands had also experienced population losses. The case studies revealed that:

- the reduction in population in the town which had experienced the greatest population loss had had the effect of removing $3.1 million in retail spending from the local community

- the losses were not spread proportionately across age groups and focussed on the young.

- the altered age distribution had had a bearing on average income levels. There was evidence it had substantially fallen in one of the towns, less dramatically in two others. Circumstances made it difficult to make an accurate calculation for the other two towns.

- there had been some losses in retail services including a newsagent, bakery and footwear store. There were also new businesses including aged care hostels and motel/chalet/B&B accommodation. The study claimed that ‘while the case study townships have retained vibrancy with the development of some new activities over the last decades, for the most part the situation has been one of services reduction, or at least of services re-configuration.’[45]

2.59 The Committee is not persuaded that the findings in themselves lend strong support to the argument that bank branch closures are a consequence of demographic change. Indeed as pointed out by Rolley and Argent in a critique of the study, 44 of the 72 towns in localities outside Sydney classified as Other Rural Areas or Other Remote Areas which had become branchless between 1981 and 1998 had experienced population growth.[46]

2.60 The study triggered an ongoing debate in the inquiry. It is not the intention of the Committee to engage in the debate nor to allow the plethora of detail provided to obfuscate the real issue, namely the need to ensure communities are not disadvantaged by changes in the delivery of financial services.

2.61 The Committee accepts that demographic changes may be one of the factors contributing to changes in the delivery of services including financial services. It recognises that other service providers including governments have also rationalised

45 ibid. pp 3-4.

46 Submission no 120, vol 5, p 988 (Dr Neil Argent & Dr Frances Rolley).

services and that the removal of services is bound to have a snowballing effect creating what is described in the KPMG study as a cycle of decline. [47]

2.62 As pointed out in many submissions, changes in the delivery of banking and like services must be seen in the context of other changes that rural Australia is experiencing. In evidence before the Committee, the Acting Director of the Wheatbelt Development Commission expressed his view as follows:

> I do not believe it is always to do with reducing populations and reducing population size. I think economic rationalisation has got a lot to do with it, and we see banks being removed from communities that are not decreasing in population – they are actually increasing in population. We hear stories of banks being removed from suburbs in the metropolitan area that are dramatically increasing in population. It is a change issue, and it is an economic rationalisation issue probably just as much as it is a rural decline issue. [48]

2.63 The Committee concurs with the view that the essential issue is change. It reiterates that its concern is to ensure that communities are not disadvantaged by the changes in the delivery of financial services. It is particularly concerned about the impact of these changes on both small business and on many smaller account holders

The impact of changes

Growth of electronic channels

2.64 As the figures on the uptake of technological channels indicate, customers are increasingly accepting the electronic channels. The Committee notes that the figures do not reveal the level of acceptance by different sectors of the population. Evidence taken by the Committee suggests that this level varies significantly between different sectors of the community. For instance, a number of submissions referred to many elderly people being uncomfortable with the new technology. ABS material on the uptake of the Internet according to age groups supports these views at least in respect to Internet banking. The ABS material also indicates that those on higher incomes are more likely to use the Internet.

2.65 With these important qualifications in mind, the Committee considers the introduction of electronic channels offers substantial benefits to the community where there is access to them, especially in areas where they are an additional service rather than an alternative to those services offered by traditional branches.

2.66 The most obvious benefit for customers relates to convenience. The introduction of electronic channels has dramatically increased the type and number of outlets and the times at which customers can access banking and like services. Depending on the location, ATMs allow customers to withdrawal or deposit cash or to transfer money between accounts for up to 24 hours a day. EFTPOS removes the need

47 Submission no 80, vol 3, p 602 (ABA)

48 *Transcript of evidence*, Northam, 13 July 1998, p 642 (Mr Arthur).

to carry cash to purchase goods or services in those outlets that have it and provides a facility for withdrawing cash often during extended hours. Internet Banking and telephone banking offer the convenience of banking from home or the office for many non-cash based transactions. For many people in regional and remote Australia, this reduces the need to travel considerable distances to banking facilities.

2.67 Electronic services are cheaper to deliver for banks and consequently cheaper to use for customers. Most banks actively using pricing policies to encourage customers to use the electronic channels.

2.68 In its submission to the inquiry, the ABA claimed that electronic banking services are actually improving the level of services to very remote townships and communities where access to a branch has always been difficult.[49] The lack of comprehensive data on the availability of services to different regions makes it impossible to draw conclusions about the degree to which remote and regional communities have gained improved access to services though the introduction of electronic channels. However, it is clear rural and remote communities potentially stand to gain considerably from the widespread introduction of electronic banking services. For this potential to be realised, a number of developments need to take place. These include the establishment of the necessary telecommunications infrastructure in all regions to support telephone and Internet banking and the resolution of problems impeding the introduction of smartcards. These matters are discussed in Chapter 4.

Impact of closures

2.69 The change in the delivery of financial services that received most attention in this inquiry was that involving branch closures. As imprecise as the available statistics are, they conclusively demonstrate that banks have been actively rationalising their branch networks. Although this process is taking place in urban and rural areas, the closure of branches in many rural and remote areas has serious consequences. This is primarily due to the distance between towns and hence branches in rural areas. It also reflects the role that bank branches have traditionally played in the fabric of life in country towns.

2.70 It is difficult to generalise about the impact of bank closures in rural areas. The experiences of rural and remote communities vary with some towns retaining at least one major bank branch, agency or credit union whilst others are left with no banking services at all. There is also a distinction to be made between large and small rural communities. Most of the studies undertaken to investigate the impact of bank closures on rural communities have focused on towns which populations of 1000 or less, and it is not clear if this includes both the town itself and outlying areas.[50] Most of the submissions from individuals and shire councils come from such communities. Medium and large regional centres (such as Dubbo, Cairns, Ballarat) do not appear to be affected to the same extent as small communities.

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49 Submission no 80, vol 3, p 607 (ABA).

50 Walker, G., Corby, D & Murphy,T. 1997, Finance restructuring: Implications for regional Australia, paper presented to the 15th Pacific Regional Science Conference Organisation, 8-12 December, p 7 (Submission no 7, vol 1, p 53).

2.71 In a study of the impact of bank branch closures on rural communities, Beal and Ralston (1997) identified three levels on which the impacts are felt, namely individual, business and community.[51] Submissions and evidence in this inquiry support their findings in terms of the nature of effects of closures. These impacts are particularly serious when the closed branch was the last in town. Severity of the impact is also greater in areas where the branches are in sparsely settled areas than in more densely populated areas.[52]

Impact on individuals

2.72 The withdrawal or downgrading of banking services can impact upon individuals in a number of ways:

- individuals suffer the inconvenience of having to travel to do their banking. This can have security implications if large amounts of cash are involved. This also adds to the cost of banking through fuel costs, wear on motor vehicles, and time required to travel
- savings are reduced due to the disruption of regular savings patterns and the increased cost of banking
- cash withdrawals are larger to compensate for loss of daily access to banks. This also has security implications
- loss of investment income
- difficulty in obtaining credit from banks
- the increased need for credit from local businesses in lieu of cash
- difficulties in cashing cheques
- lack of access to financial advice.

2.73 Specific groups may suffer additional difficulties. The elderly may not have access to, or be able to afford transport in order to travel to the nearest branch and new technologies are often difficult for them to understand and use. Physical handicaps such as arthritis, memory difficulty or sight-impairment may place further restrictions on the elderly if counter services are not available. People with disabilities face similar problems. For example, wheelchair access to an ATM or EFTPOS facility may not be available or the nature of ones disability may make using electronic banking difficult. Low-income earners and those on welfare payments are similarly disadvantaged due to a lack of transport and the difficulty in cashing cheques.

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51 Beal, D. & Ralston, D. 1997 *Economic and Social Impacts of the Closure of the Only Bank Branch in Rural Communities*, Centre for Australian Financial Institutions, University of Queensland, report prepared for CreditCare, p 12.

52 Submission no 120, vol 5, p 983 (Dr Neil Argent & Dr Frances Rolley).

Impact on business

2.74 Businesses in small rural and remote communities face considerable difficulties when confronted with the withdrawal of banking services. Similar concerns are shared by businesses and individuals, such as increased travel in order to access direct banking services (along with the associated security concerns) and the lack of access to financial advice that was traditionally provided by local bank staff with a wealth of local knowledge. The withdrawal or downgrading of banking services specifically impacts upon rural businesses in the following ways:

- an increase in the demand for cheque cashing services
- the loss of cash sales due to consumers shopping in larger towns which have banking facilities
- the accumulation of excess cash due to an inability to deposit takings on a daily basis
- an increase in bad debts due to the need to extend credit to local customers who do not have regular access to cash
- delays in the depositing of cheques which then delays the honouring of cheques
- increased security concerns due the lack of secure facilities to deposit takings and the need to transport large amounts of cash to and from the nearest bank branch in an unsuitable vehicle such as a private car
- difficulties in obtaining small change
- farming businesses are particularly disadvantaged by the loss of bank staff with intimate knowledge and experience in rural banking.

Impact on the community

2.75 The closure of branches affects the economic and social capital of communities. Many submissions described the closure of branches leading to a financial drain from communities. As people are forced to travel to larger centres to do their banking, they often do their other business and shopping in those centres as well. The average decrease in expenditure in their local town by respondents surveyed by Beal and Ralston (1997) was $320 per month. The Local Government and Shires Association of New South Wales reported ‘bank closures in New South Wales result in a 20 per cent fall-off in trading at local supermarkets.’[53] The Wyndham Shire President estimated that the town [54] had recently lost up to $60 000 worth of business because it did not have a bank. The Manager of the East Kimberly Business Enterprise Centre estimated that ‘between 10 and 15 per cent [had] been wiped off

53 *Transcript of evidence*, Sydney, 18 February 1998, p 53 (Mr Bott).

54 *Transcript of evidence*, Wyndham, 10 August 1998, p 802 (Mrs Middap).

most of the retail revenues…since the bank closed.'[55] Beal and Ralston found that changes in the financial environment after the closure of a branch also resulted in a loss of financial investment in the towns that they studied.

2.76 In addition to the direct loss of jobs, the closure of branches also leads to loss of bank staff from the town. As pointed out by the Donald community and in many other submissions also, the fall in population that results may affect the level of resources available for other services including schools. The CWA of New South Wales described the chain of events that occurs after the closure of a bank as a domino effect.

2.77 This appears to be more than a loss of confidence in the economy of the town. Banks have traditionally had high standing as local institutions in country towns and represent for the community, at least symbolically, solidity and prosperity. They are perceived to be pillars not only of the economic fabric of towns but of the social fabric as well. Bank managers and their staff often occupy positions of importance and trust in community organisations. The loss of these personnel is a significant loss in terms of social capital as explained by witnesses from the St George Group:

> **Mr Kanizay** – The feedback we get is that, when we close a branch, the biggest impact is that we normally take away the resources that are operating in that branch. The local branch manager or some of the people who worked in that branch have to leave that town and move to other locations. The issue is that one person who used to be the treasurer of the football club or the treasurer of the school had other such job roles in that town, so you then needed to buy resources in to fulfil the same role in some cases. They end up losing a resource that is of value to the community, even though they still maintain their banking activities to a reasonable degree in terms of daily banking. That is, perhaps, the biggest concern that a lot of these communities have: that we are reducing the number of specialist people that they have in their communities who they can rely on to do other activities there.
>
> **Mr Ward** – That has also been the case in certain instances in New South Wales where we have changed a branch to an agency. The reaction has been more over the fact of what we are doing to the town rather than focussing on the reduction in banking services necessarily.[56]

The impact on a community of the loss a bank branch is of concern even to members of that community who are reasonably well served by alternative channels being introduced by financial institutions. As the Chief Executive Officer of the South Australian Farmers Federation explained to the Committee:

> …when we talk to our farmer members, their main concern in terms of the decline in banking services is about its impact on the their local community. Not most of them but a reasonable percentage are being serviced through mobile banking services now, and they are quite

55 *Transcript of evidence*, Wyndham, 10 August 1998, p 831 (Mr Mahomet).

56 *Transcript of evidence*, Sydney, 19 February 1998, p 104 (Mr Kanizay and Mr Ward).

> enjoying the experience. Obviously, they have a concern for their community; they are concerned about regional decline as an issue.[57]

Banking as an essential service. Whose responsibility?

2.78 Most submissions to the inquiry stressed the importance to rural and remote communities of having access to banking and financial services. Many organisations equated them with essential services such as clean water, health care, education and telecommunications.[58] The NFF highlighted in its submission the following comments made by the ACCC to the FSI:

> Access to financial services is an essential requirement for participation in modern society. All consumers need mechanisms for storing and saving money and for receiving and making payments to third parties. In this sense, basic banking services have much in common with central utilities such as electricity, gas and water.[59]

The Committee concurs with these views.

2.79 The view of a service as an essential service inevitably raises the issue of community service obligations. Many submissions argued that banks have been in a privileged position and that this imposes an obligation on them to provide services to the community. According to the Local Government and Shires Association:

> It is not sufficient to argue that banks are now like any other competitive business whose primary objective is to maximise the return to the shareholder. The major banks, because of their key role in the financial system have a utility function that confers responsibilities beyond that of ordinary businesses.[60]

2.80 They suggested that obligations should be imposed as a license condition.[61] The Country Women's Association of New South Wales also thought licences should be dependant upon meeting minimum service requirements. [62]

2.81 A number of submissions referred to a community perception that banks had actually had CSO obligations. Some suggested that there was a case for governments to take up these obligations as adjuncts to profitable operations. The Australian Local Government Association offered the services of 'local government as a party to

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57 *Transcript of evidence*, Adelaide, 30 April 1998, p 466 (Mr Cameron).

58 Submission no 48, vol 2, p 379 (LGSA NSW), *Transcript of evidence*, Canberra, 2 April 1998, p 199 (ALGA), *Transcript of evidence*, Wyndham, 10 August 1998, pp 800-801 (Mrs Middap).

59 *Transcript of evidence*, Canberra, 2 July 1998, p 533 (Mr Ritchie)

60 Submission no 48, vol 2, p 381.

61 ibid. p 383.

62 Submission no 70, vol 2, p 548 (Country Women's Association of NSW).

appropriate agency agreements on behalf of the Federal Government to ensure CSO's once provided by banks remain available to the community.'[63]

2.82 One submission suggested the impost of a levy on new entrants to the financial services industry to subsidise the maintenance of rural branch networks.[64] The idea of imposing a levy on existing financial institutions as a means of funding the establishment of alternative services has also been raised in discussions about this issue. The Committee considers that there are significant issues relating to equity involved in imposing levies on new or old entrants to the industry and does not consider itself in a position to make a proper assessment of the implications or feasibility of such a proposal.

2.83 A number of submissions referred to the Community Reinvestment Act (CRA) in the United States and suggested that a similar mechanism be used in Australia to ensure banks maintain services in regional and remote areas in Australia.[65] The CRA was enacted in 1977 as a means of encouraging 'banks and thrifts to meet the credit needs of their entire communities, including low and moderate income neighborhoods, consistent with safe and sound lending practices.'[66] Under the CRA, Federal financial supervisory agencies rate financial institutions rated according to their actual performance in helping to meet their communities credit needs. These ratings are taken into account when the financial institutions make various types of applications, such as applications for branches, office relocations, mergers, consolidations, and purchases and assumption transactions.[67] The Federal Register (1995) reports that under the CRA, many banks and thrifts have opened new branches, expanded services and 'made substantial commitments to increase lending to all segments of society.'[68]

2.84 The banking industry and Australia Post vigorously oppose the imposition of a financial services community service obligation. The ABA argues that such obligations are not viable on both economic and practical grounds. Moreover, it would require cross subsidisation which runs counter to key objectives of the Wallis Inquiry[69] which argued that regulation for social purposes was inefficient.[70]

2.85 The Prices Surveillance Authority Inquiry into Fees and Charges (1995) also concluded that CSOs which were imposed by legislation on firms required to provide the product and funded by cross subsidies were undesirable on grounds of efficiency

63 Submission no 63, vol 2, p 495 (ALGA).

64 Submission no 44, vol 2, p 317 (Dick Adams, MP).

65 Submission no 47, vol 2, p 328 (FSU), Submission no 87, vol 4, p 777 (NSW Government).

66 Federal Register, Vol 60, NO 86, 1995, Rules and Regulations, 22156

67 ibid, 22157

68 ibid 22156

69 Submisson no 80, vol 3, p 612 (ABA)

70 Australia. Financial System Inquiry 1997. *Financial System Inquiry Final Report* (Wallis Report) p 508.

and equity.[71] It considered, however, that CSO's which are budget funded with funding channelled to either the individuals targeted for assistance or to firms providing the product are more efficient and equitable.[72]

2.86 However, given the costs of providing financial services, it is unlikely that small, remote or disadvantaged communities will retain access if it is left to competition alone to ensure it. The Committee considers that governments have a responsibility to ensure that all communities have access to essential services including financial services. However, they do not have this responsibility alone. During the course of this inquiry, the financial services industry has shown an increasing willingness to accept that they have a social responsibility. Many communities have demonstrated through their concerted effort to find alternative services that they also have responsibilities in this area.

2.87 Governments ultimately have the option to meet their responsibilities through a regulatory approach. The Committee favours, at least in the first instance, an approach which encourages all players – governments, financial services providers and communities - to accept their shared responsibilities for ensuring communities maintain access to banking and like services. The ensuing chapters document many of the efforts and initiatives of all parties to date and outlines ways of building on them to find solutions. The Committee's view is that the problems being encountered by communities are of a transitional nature for many in the community. Strategies developed to maintain and ultimately improve access must be constructed with a view to the short and long term.

71 PSA. 1995. Inquiry into Fees and Charges Imposed on Retail Accounts By Banks and Other Financial Institutions and by Retailers on EFTPOS Transactions, p 173.

72 ibid. pp 171-174.