
CHAPTER 5 – OUTSTANDING ISSUES

The Transport of Cash

5.1 A further issue raised in the inquiry related to the transport and distribution of cash. Many communities without bank branches reported having difficulties in transporting cash as a result of bank branch closures. The difficulties related particularly to security and expense and were experienced by small businesses, local governments and some farmers. The problems were referred to in submissions from all parts of regional and remote Australia but appeared to be most serious in areas in which there are considerable distances between towns.

5.2 The Committee heard numerous accounts of large sums of cash being transported in a manner that is clearly inadequate in terms of security. It is extremely concerned by the risk posed to those involved and considers that resolution of the problem is a matter of urgency.

5.3 The distribution of cash is a responsibility of the Reserve Bank of Australia although the actual delivery of services is provided by armoured car companies (ACCs).

5.4 Arrangements for distributing cash to country areas have changed over the years. These changes include the withdrawal of cash handling services by Australia Post who since the 1970s had assisted banks with the cash needs of their branches in more remote parts of Australia. In October 1996, these services ceased following 'Australia Post's decision to change the nature of its Security Post Operations, by prohibiting the acceptance and carriage of currency notes in the mail'.¹ The country mail services were described by the RBA as follows:

Country mail services involved commercial banks submitting orders for notes directly to a Reserve Bank branch where staff placed notes in cartons. Made-up cartons were later picked up by an ACC and taken to Australia Post's capital city Mail Exchange. Utilising its Security Post vehicles, cartons were then transported by Australia Post to commercial banks' designated country services. Commercial banks could return surplus or unfit notes utilising the same service.²

5.5 According to the Chairman of the Western Australian Regional Financial Services Taskforce on the Withdrawal of Banks from Country Towns (1997), most of the cash in Western Australia was couriered by Australia Post prior to its cessation of cash handling services. In evidence before the Committee, the Chairman of the Taskforce, Max Trenorden, MLA, described the system of transporting cash in Western Australia as having collapsed with many centres not large enough to attract

1 Submission no 157, vol 6, p 1279 (RBA).

2 *ibid.* p 1279.

the services of the courier companies having 'had no service at all since Australia Post pulled out'.³

5.6 The evidence also suggests that the reliance on ACCs is costly. According to one witness, the cost of transporting cash has increased from \$10-\$20 per week per branch when Australia Post provided the service to a cost under current arrangements of up to \$600 per week per branch. The costs of using a security service when necessary to transport large amounts of cash were described as astronomical by one Shire Council.

5.7 According to the Western Australian Regional Financial Services Taskforce, centres large enough to attract the services of armoured courier companies appear to be managing. The Taskforce's report described arrangements whereby the banks and the three major armoured courier companies have effectively established local route monopolies. The arrangements ensure the viability of delivery services. The Taskforce found that 'the courier companies were not aware of any communities experiencing major problems with cash distribution and indicated that they would be keen to speak to local representatives if this were the case'.⁴ However, the Taskforce considered that given the high cost of introducing additional routes, the banks 'would be unlikely to support areas in which there was no bank representation'.⁵

5.8 The Western Australian Regional Financial Services Taskforce recommended that 'the State Government encourage banks, local authorities and businesses to adopt a coordinated approach to handling cash and transporting cash between rural communities'.⁶ The Committee supports this approach. It notes the Western Australian Government's suggestion that as part of a memorandum of understanding between the federal government, the major banks and major building societies, banks will work cooperatively with state governments to find a way to ensure that cash delivery routes covered towns.⁷

5.9 However, the Committee expects that given the small size of many of the towns and the distances between them, courier services will not always be commercially viable in their own right. There will be some centres which are simply too remote to be on any regular routes for armoured car companies.

5.10 The Committee also considers that the problem is not likely to be solved simply by establishing more routes for ACCs. Examples were cited to the Committee in which ACCs went through some towns on routes to other towns they were servicing but did not stop as there were no financial institutions there. This suggests that a solution needs to take into account the need for a cash distribution centre in towns without financial institutions.

3 *Transcript of evidence*, Northam, 13 July 1998, p 625 (Mr Trenorden).

4 Regional Financial Services Taskforce. 1997. 'The withdrawal of banks from country towns'. NSW Department of Fair Trading, p 19.

5 *ibid.* p 19.

6 *ibid.* p 19.

7 *Transcript of evidence*, Northam 13 July 1998, p 632 (Mr Yule).

5.11 In considering this matter, the Committee has borne in mind that Australia Post is required to transport cash for its own outlets, some of which are in very remote places. This indicates that an effective basic infrastructure is already in place. One solution to the problem, therefore, is for Australia Post to resume cash delivery services at least to those areas which are without other cash distribution services and in which Australia Post has an outlet.

5.12 In making this suggestion, the Committee is aware that the problem will be solved for many communities once Australia Post outlets offer business banking services. However, unless Australia Post also resumes cash handling services, very remote communities will continue to have to transport cash over large distances in a manner that puts those involved at some risk.

5.13 The Committee considers that the Commonwealth government has a role in ascertaining the extent of the problem, identifying those areas affected and in providing some funding to assist communities disadvantaged by distance or remoteness to access some form of cash distribution services. This should be done as part of Rural Transactions Centres Program. In taking this role, the Commonwealth must consult fully with State and Local Governments, the Reserve Bank of Australia, Australia Post, financial institutions and armoured car companies.

5.14 **Recommendation (16)**

The Committee recommends that the Commonwealth government undertakes as part of the Rural Transaction Centres Program to develop a method to contract Australia post to deliver cash to areas in which Australia Post has a presence but in which there is no other financial institution.

In the Event of Closures

5.15 Early in the inquiry it became clear that the rural and regional communities that had lost a bank branch were not only unhappy about the loss of the branch, but about the manner in which the banks had closed the branches and their apparent disregard for the communities involved. Principal concerns related to the period of notice of closure given by the banks and the lack of consultation with the community. Feelings of disappointment, anger and betrayal were palpable in the evidence.

5.16 Many organisations including the Local Government and Shires Association of New South Wales and the Western Australian Department of Commerce and Trade proposed that banks adopt some form of code of conduct in relation to branch closures.

5.17 In the Committee's view, the consistency of criticisms about the practices of banks when closing branches confirms that there is a need for a protocol for bank branch closures to be adopted by the industry. The Committee acknowledges that in the course of this inquiry, the banking industry has made some moves towards improving its practice when closing branches. The Committee was particularly impressed with the branch closure protocol initiated by the Commonwealth Bank and

described in its submission to the Committee.⁸ Similarly, a number of the commitments made by the ABA in their announcement of a series of measures to assist the bush would be appropriate in a closure protocol.⁹

5.18 Although the demands of a competitive environment should ensure that banks respond to the needs of customers, the evidence suggests that in many cases it has taken the pressure of this parliamentary inquiry to motivate the banks to reappraise their practices when closing branches in regional and remote Australia.

5.19 Therefore, given the impact that the closure of a branch has on regional and remote communities, the Committee considers it appropriate that some practices in relation to branch closures are made mandatory and, as such, incorporated into the Code of Banking Practice. These practices relate to the period of notice given, community consultation, the transfer of accounts without permission and charges incurred for early repayment of loans and closing accounts.

5.20 There are also a number of other practices that the Committee considers should be included in a closure protocol although not necessarily made mandatory. These include the establishment of provision of alternative face to face services and the provision of adequate opportunities for customers to become familiar with electronic modes of accessing banking services.

Period of notice

5.21 In its initial submission to the inquiry, the Australian Bankers' Association described the practice of banks when closing branches as follows:

When a bank decides to close a branch, after carefully analysing branch business levels and costs over time, the bank writes to its customers advising the branch will be closed from a set date and their accounts will be transferred to the nearest branch.

In general, banks give four to six weeks' notice of their intention to close a branch, giving customers reasonable time to rearrange their banking requirements if desired, while allowing the bank to make administrative arrangements. Banks also consult with local government and relevant business and community groups when a change of branch representation occurs.

In communicating with their customers, banks usually encourage them to take advantage of telephone banking to manage their accounts and avoid the need for branch visits. They also ensure, wherever possible, that EFTPOS facilities are available in the area.¹⁰

5.22 However, the evidence presented to the Committee by community representatives presented a very different picture of the approach taken by many

8 *Transcript of evidence*, Canberra, 28 May 1998, p 484 (Mr Long).

9 *Transcript of evidence*, Canberra, 2 July 1998, p 556 (Mr Tony Aveling).

10 Submission no 80, vol 3, pp 610-611 (ABA).

banks when closing branches. One witness described the experience of the community to which he belonged as follows:

With relation to the notification of the closure, it was based soundly on rumour – there was no notification. Historically, without any significant notification at all, the services at Macarthur were reduced from five days to three days. The resident manager was moved to Hamilton, attending Macarthur one day a week for a short time until his facility was withdrawn, once again without any appropriate notification. Personal notification to customers by the bank of the proposed closure was nil in effect prior to the closure. I understand that there were some exceptions for selected clients who were contacted prior to the actual closure.

The written advice that was subsequently received from the National Bank was one dated 20 February 1998 introducing our new branch manager; it was one of the Hamilton managers. Up to that time we had not been advised of any formal closure. On 3 March 1998, which was a week or so after the actual closure, we were advised that our branch was on the move. We received, after the closure, the letter and some documentation inviting us to explore the possibilities of electronic banking – EFTPOS and ATM banking procedures.

As part of our investigation, where the bank is saying that the processes are not viable in these smaller towns, we would make note of the fact that some of the communications that were received relative to this process included letters to deceased persons and letters sent to persons who had closed accounts.¹¹

5.23 Another witness claimed that the shire president was notified by a bank of its intention to close only the week prior to the event.¹² The Committee notes that some of the evidence pertaining to the amount of notice given by banks before closing a branch was disputed by the bank in question.¹³ Despite these instances, the evidence clearly suggests that communities on the whole are not being given adequate notice.

5.24 From the banks' perspective, the short period of notice may serve to minimise community protest¹⁴ and the transfer of accounts by customers from the branch to be closed to another bank in town. The New South Wales government estimated that the practice of giving short notice in combination with the targeting of valuable customers allowed departing banks to retain approximately 80 per cent of loans and 70 per cent of deposits.¹⁵ The Committee's discussions with the banks persuade it that these estimates are reasonably accurate.

11 *Transcript of evidence*, Hamilton, 29 April 1998, p 384 (Mr Luke).

12 *Transcript of evidence*, Perth, 13 July 1998, (Cr Pech).

13 *Transcript of evidence*, Melbourne, 22 April 1998, p 235 (Cr Matheson), Submission no 119, vol 5, pp 969-970 (CBA); *Transcript of evidence*, Darwin, 10 August 1998, p 769 (Mr Manns), Submission no 138, vol 6, pp 1166-1167 (CBA).

14 *Transcript of evidence*, Sydney, 19 February 1998, p 109 (Mr Kanizay).

15 Submission no 87, vol 4, p 773 (NSW Government).

5.25 Following adverse publicity generated in part by this inquiry, some improvements were made in relation to the amount of notice given of the closure of branches by the banks. In its submission to the inquiry, the Commonwealth Bank outlined its branch closure protocol which included a six week period of notice. The Australian Bankers' Association, in announcing a series of initiatives aimed at addressing the problems for rural communities, agreed to give six weeks written notice to customers before closing any rural or remote branch.¹⁶ In evidence before the Committee, Trust Bank made commitments that it would give communities at least three months notice before changing services.¹⁷

5.26 In calling for a longer period of notice, witnesses stressed the need to have adequate time to negotiate alternatives.¹⁸ According to the Wheatbelt Development Commission, six weeks notice did not allow sufficient time for a 'community to be properly educated, properly prepared, for the loss of that resource'.¹⁹ A number of witnesses commented that unless communities had time to ensure an alternative was in place before or very soon after the actual closure of a branch, those forced to travel to neighbouring communities to do their banking would become set in that pattern and would be 'unlikely to return to banking within their community'.²⁰

5.27 According to CreditCare, a longer period of notice would be of enormous help in enabling other initiatives to be put in place. They suggested the period of notice be a minimum of three months.²¹ Representatives from the New South Wales Farmers' Association, the New South Wales government and the Western Australian government also called for the period of notice to be three months.²²

5.28 The Committee supports these calls and considers that the six weeks period of notice adopted by the industry will not always be sufficient for communities to establish effective alternatives. This is particularly the case when the branch to be closed is the last in town. However, any policy on closure protocol which differentiated between banks according to whether they were the last branch in town would possibly encourage banks to ensure that they did not find themselves in that position. The Committee therefore considers that a three month period of notice be uniformly adopted by the industry. A recommendation concerning this is made at the end of this chapter.

16 *Transcript of evidence*, Canberra, 2 July 1998, p 556 (Mr Aveling).

17 *Transcript of evidence*, Launceston, 23 April, p379 (Mr Clues).

18 *Transcript of evidence*, Perth, 13 July 1998, p 581 (Mr Scheggia), *Transcript of evidence*, Sydney, 18 February 1998, p 90 (Ms Jordan).

19 *Transcript of evidence*, Northam, 13 July 1998, p 645 (Mr Morrison).

20 *Transcript of evidence*, Warracknabeal, 29 April 1998, p 423, (Mr Vallance); *Transcript of evidence*, Hamilton, 29 April 1998, p 389 (Mr Brendan Kelly).

21 *Transcript of evidence*, Canberra, 12 March 1998, p 158, (Mr Dave Taylor).

22 *Transcript of evidence*, Sydney, 18 February 1998, p 90 (Ms Jordan); Submission no 87, vol 4, p 773 (NSW Gov); *Transcript of evidence*, Perth, 13 July 1998, p 636 (Mr Yule).

Consultation processes

5.29 Witnesses also decried the banks' failure to consult with communities about branch closures. Many called for a more effective process to be implemented²³ with the Finance Sector Union of Australia claiming that a 'program of proper consultation with affected communities and concerned organisations [would] be a major starting point' in redressing the 'stark imbalance in influence and power between rural customers and the corporate head offices of the major banks'.²⁴ In describing the situation in regard to bank closures as being 'processless at the moment', the CEO of the Municipal Association of Victoria called for 'some proper consultation so that the community is aware of what is happening and aware of what their options are'.²⁵

5.30 In his submission to the inquiry, Dick Adams MP recommended that banks be 'encouraged to develop and commit to a consultative mechanism with communities affected by plans for bank branch rationalisation'.²⁶

5.31 In response to concerns about consultation processes with the community, the Australian Bankers Association's has committed the industry to consult with local communities on the trends in the delivery of banking services so that they may consider general developments that might affect in the future the way they will be able to access banking services in their area'.²⁷ In clarifying the industry's intention in regards to community consultation, Mr Aveling gave the following account:

What we are saying on consultation is that local communities, quite rightly, need to have a say and they need to understand what is happening regarding the provision of banking services. We accept that simply sending out a letter to say, 'Your bank has closed,' will no longer be appropriate. As far as consultation is concerned, what we are talking about is not when any decision has been made to close a branch that we will then go out to consult with the community. We are saying that, at the local level – and this could be at the regional management level and you have one of your branches in a country town – you should go along and talk to the community about the developments that are taking place in banking'.²⁸

5.32 The Committee welcomes the commitment made by the ABA in respect to community consultation and the apparent understanding of the need for the consultation to be genuine. In the Committee's view it is imperative that consultation takes place before any decisions are made to change services and that it is a two way process. The consultation should be ongoing and broadly inclusive. The Committee supports, for instance, the suggestion made by the Newcastle Chamber of Commerce

23 *Transcript of evidence*, Adelaide, 30 April 1998, p 458 (Mr Cameron); Submission no 85, vol 4, p 754 (.NSW Farmers' Association)

24 Submission no 47, vol 2, p 331 (Finance Sector Union of Australia).

25 *Transcript of evidence*, Melbourne, 22 April 1998, p 237(Mr Spence).

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

27 *Transcript of evidence*, Canberra, 2 July 1998, p 566 (Mr Aveling).

28 *ibid.* p 563.

that consultation should include business representative organisations such as local or regional Chambers of Commerce.²⁹

5.33 Although ultimately the banks will always make the final decisions about the services they are prepared to offer in a community, genuine consultation provides the community with a chance to explore ways of making it worthwhile for the banks to maintain services. The success of the establishment of community banks in towns which have lost their last bank branch indicates that closure may not be the only course for a bank to take. Sadly, it would appear that sometimes the decision to close a branch has more to do with meeting a Head Office cut back target than fully considering the value of maintaining a presence. In other words, if banks would take the community into its confidence, there may be another way to keep the branch open. In situations where closures are inevitable, proper consultation at least gives communities an opportunity to help shape the form of alternatives that are put in place. The recommendation concerning this matter is made at the end of the chapter.

Practice of transferring accounts

5.34 As discussed at 2.49, the Committee was concerned at suggestions that banks have in some instances transferred accounts from smaller branches to larger centres without permission from the customer. Whether intended or not, such a practice may lessen the likelihood of customers transferring accounts to other banks. It can also reduce the viability of the smaller branch.

5.35 The Committee considers that customers should be provided with information before any significant changes are made to arrangements they have made with a particular bank branch. 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.

5.36 Although the Committee has included this matter in its recommendation on closure protocol, it has also made a separate recommendation at 2.52 in the interests of ensuring that the procedure of giving at least two months notice before making significant changes to accounts is followed at all times.

Disincentives for closing accounts

5.37 Despite the level of community disenchantment with the banks where they have closed branches, it is evident that the banks have retained a very high proportion of their customers in those communities. Although there are no doubt a number of reasons for this, a contributing factor is the cost involved. Penalties involved for the early repayment of some loans and may amount to considerable sums of money and act as a serious disincentive to changing banks. Similarly, fees and government duties involved in transferring to another bank may also be considerable. This reduces the likelihood of a community using what may be a highly effective means of demonstrating its dissatisfaction with the level of services provided by a bank.

29 Submission no 50, vol 2, p 389 (NSW Chamber of Commerce).

5.38 Given that the accessibility of a branch may have been a determining factor in a customer choosing to have an account with a particular bank, the Committee considers it inappropriate for customers to be penalised for closing accounts if the branch is no longer as accessible. This is particularly the case in regional and remote areas where the distances between towns may be considerable. The committee concedes that the accessibility factor may be as relevant for many in urban communities. However, given that the terms of reference relate to services in regional and remote areas, the Committee will confine its considerations in this instance to those areas.

5.39 Recommendation (17)

The Committee recommends that in the event of closing a branch, the bank concerned waives any fees or penalties incurred relating to the early repayment of loans or closing of accounts.

5.40 Recommendation (18)

The Committee recommends that state governments provide exemptions for stamp duties on any mortgages in instances where customers are transferring loans to another bank as a direct result of a bank closing the branch at which the loan was made.

Provision of alternative services

5.41 In the course of this inquiry, both Colonial State Bank and Westpac made public commitments to leave a face to face service in country towns in the event of closing branches. The Commonwealth Bank indicated in its submission to the inquiry that whenever it had closed a branch where there was no Australia Post outlet, it had established an agency facility.³⁰ BankWest and Bank SA have also endeavoured to leave a face to face service in place when closing a branch.

5.42 In evidence before the Committee the ABA made the following undertaking:

The banking industry undertakes that, first, it will endeavour to leave reasonable access to banking services when closing a branch in areas where there are no other providers of similar services, such as the credit unions, building societies or Australia Post. These banking services would include transaction and payment services, deposit services, loan services and telephone banking. The services will be provided by alternatives which could include bank agencies, third party agency arrangements, franchised branches, community branches, community banks or bank kiosks.³¹

5.43 Although the commitment represents a move towards improving practice when a bank closes a branch, it falls short of guaranteeing a minimum standard of service in that event. It also appears to place more of a responsibility on the last bank in town.

30 Submission no 117, vol 5, p 954 (CBA).

31 *Transcript of evidence*, Canberra, 2 July 1998, p 555 (Mr Aveling).

5.44 The terms of this commitment are vague and it is conceivable that even when implemented, some communities may still find themselves without access to business banking services or face to face banking services. Alternative arrangements should be in place before the actual branch is closed.

5.45 The Committee considers that that the banking industry should work towards developing a minimum standard of service delivery as a guideline for banks in the event of closing regional and remote branches. The standard should allow personal and small business customers to withdraw and deposit cash. It should also provide for face to face services.

5.46 The Committee acknowledges that there are problems in obliging banks to leave a minimum standard of service when closing branches. However, given that the technology is available for low cost alternatives which meet the suggested standard, for example the electronic agency developed by Bank SA, the Committee considers that it incumbent on banks to make every attempt to leave services in place which meet this standard. The Committee refrains from actually recommending that the industry commits itself to a minimum standard because there will be some circumstances when it may not be warranted to do this. However, it considers that it would be a positive indication of the industry's seriousness in addressing the problems caused by branch closures if it developed a minimum standard of service delivery as a guideline for banks.

5.47 The Committee commends those banks that have already committed themselves to leaving a face to face service behind in the event of closing branches.

5.48 **Recommendation (19)**

The Committee recommends that the Australian Bankers' Association develops a minimum standard of service delivery as a guideline for banks in the event of closing regional and remote branches.

Education and training

5.49 Details of approaches being taken by the banks to familiarise customers with electronic forms of banking are given at 4.102 to 4.115.

5.50 The Committee commends the industry for its commitment to provide, in the event of closing a branch, 'face-to-face education and training for customers and the community in alternative forms of banking'.³² It suggests that the form the education and training will take should be decided in consultation with the community. The Committee also suggests that all customers are advised by mail of opportunities for training. In addition to seminars and group demonstrations, customers should be offered training on an individual basis. Wherever possible, this should be given by bank staff already known to the customers.

32 *Transcript of evidence*, Canberra, 2 July 1998, p 556 (Mr Aveling).

5.51 **Recommendation 20**

The Committee recommends that the industry adopts a branch closure protocol which incorporates the following:

- 1 Banks will give three months notice to customers and relevant community organisations such as the Local Councils of intention to close a branch.
- 2 Banks will consult with local communities about trends in the delivery of banking services particularly about developments that have the potential to affect the delivery of services in that region. Included in this will be a genuine desire to use community goodwill to improve the viability of the branch. In the event of a decision to close a branch, banks will consult with the community about preferred options for alternative services and on the training to be provided in using alternative channels.
- 3 Banks will provide written notice of at least two months before changing the branch that manages an account.
- 4 In the event of closing or downgrading a branch below agency status, banks will waive any fees or penalties incurred relating to early repayment of loans or closing of accounts.
- 5 In the event of closing a branch, banks will be expected to leave behind some form of over-the-counter service that allows access to cash deposit and withdrawal facilities for personal and small business customers.
- 6 In the event of closing a branch, banks will provide face to face education and training for customers and the community in alternative forms of banking.

The first four items should be made mandatory and incorporated into the Code of Banking Practice.

5.52 **Recommendation (21)**

The Committee recommends that the Minister for Financial Services and Regulation monitors the practices of banks in the event of closing branches and reports back to the Committee within two years with respect to the:

- alternative services left in place
- period of notice given and method of giving notice
- degree of community consultation involved
- level of education and training provided for customers, and the
- imposition of any fees on customers who repay loans early or close accounts as a result of the closure of that branch.

