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JOINT COMMITTEE ON CORPORATIONS AND FINANCIAL SERVICES

Reference: Banking and financial services in rural, regional and remote areas of Australia

TUESDAY, 12 NOVEMBER 2002

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JOINT COMMITTEE ON CORPORATIONS AND FINANCIAL SERVICES

Tuesday, 12 November 2002

Members: Senator Chapman *(Chair)*, Senator Wong *(Deputy Chair)*, Senators Brandis, Conroy and Murray and Mr Byrne and Mr Ciobo, Mr Griffin, Mr Hunt and Mr McArthur

Senators and members in attendance: Senators Brandis, Chapman, Murray and Wong and Mr Ciobo, Mr Griffin and Mr Hunt

Terms of reference for the inquiry:

To inquire into the level of banking and financial services available to Australians living in rural, regional and remote areas of Australia with particular focus on the following:

(a) options for making additional banking services available to rural and regional communities, including the potential for shared banking facilities;

(b) options for expansion of banking facilities through non-traditional channels including new technologies;

(c) the level of service currently available to rural and regional residents; and

(d) international experiences and policies designed to enhance and improve the quality of rural banking services.

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Committee met at 4.38 p.m.

CHAIRMAN—Today the committee conducts its first public hearing into its inquiry into the level of banking and financial services available to Australians living in rural, regional and remote areas of Australia. The inquiry is to give particular attention to: (a) the options for making additional banking services available to rural and regional communities, being the potential for shared banking facilities; (b) the options for expansion of banking facilities through non-traditional channels, including new technologies; (c) the level of service currently available to rural and regional residents; and (d) international experiences and policies designed to enhance and improve the quality of rural banking services.

The committee announced its decision to inquire into these matters on 26 June 2002 and called for submissions to be lodged with the committee by 13 September. The inquiry was advertised widely in the national press. The committee also contacted many individuals, organisations and local councils, drawing their attention to the inquiry and inviting submissions. To date, 127 submissions have been received and the committee expresses its gratitude to all those who have assisted it so far in its inquiry; and, although the date for receipt of submissions is closed, the committee would still welcome and is accepting late submissions. Submissions are available from the Parliament House web site or, alternatively, the secretariat can send a hard copy of the submissions to those who wish to obtain them.

Before we commence taking evidence, may I reinforce for the record that all witnesses appearing before the committee are protected by parliamentary privilege with respect to evidence provided. Parliamentary privilege refers to the special rights and immunities attached to the parliament or its members and others necessary for the discharge of parliamentary functions without obstruction and fear of prosecution. Any act by any person which operates to the disadvantage of a witness on account of evidence given by him or her before the Senate or any of its committees, including this joint committee, is treated as a breach of privilege.

I also wish to state that, unless the committee should decide otherwise, this is a public hearing and as such all members of the public are welcome to attend. If at any time anyone wishes to give evidence in camera, then a witness may so request and the committee will consider that request. As well as this hearing this week, we are also conducting another public hearing with further witnesses on Thursday evening.

HARMAN, Mr Anthony, Acting Manager, Economic Policy and Operating Environment, Rural Policy and Innovation, Department of Agriculture, Fisheries and Forestry

JONES, Mr Brian Robert, General Manager, Science and Economic Policy, Rural Policy and Innovation, Department of Agriculture, Fisheries and Forestry

NAGARATNAM, Ms Nandhini, Senior Policy Adviser, Economic Policy and Operating Environment, Rural Policy and Innovation, Department of Agriculture, Fisheries and Forestry

CHAIRMAN—Welcome. We have before us your written submission which we have numbered 105. Are there any alterations or additions which you wish to make to that submission before we proceed?

Mr Jones—No.

CHAIRMAN—Thank you. I now invite you to make a brief opening statement, after which we will proceed to questions.

Mr Jones—Thank you, Senator. Thank you for the opportunity for AFFA to make a submission to the inquiry and for us to appear here today. We look forward very much to the outcome of the inquiry. By way of preliminary comment, AFFA does not have direct portfolio responsibility for matters relating to banking and finance in rural and regional areas, and we have no programs with direct relevance to the topic. The focus of AFFA's submission, therefore, is on a few issues of relevance to portfolio industries, and we do not claim any detailed expertise in financial services matters. Indeed, the people who have prepared the submission work on a wide range of economic policy issues and economic environment issues as they affect rural businesses. We also have not attempted to comprehensively cover all of the terms of reference of the committee, just areas where we think we have some particular portfolio perspective. With those brief introductory remarks, I will hand over to Tony Harman to give a brief outline of the AFFA submission.

Mr Harman—As Brian mentioned before, our work is in the economic policy and operating environment area. As part of our responsibilities we provide the secretariat services to the Agricultural Finance Forum. The Agricultural Finance Forum is not a decision making body but rather a body that brings together representatives from the agribusiness finance industry and the primary producer sector to talk about issues of mutual interest. That is chaired by Senator Judith Troeth, who is our parliamentary secretary. In that capacity, we do work on banking issues should they arise. We do not devote permanent resources to banking issues but when issues arise we are the area within the department that deals with those. We have some familiarity with and experience in these issues from our network of contacts through the AFF and other fora.

Australian agriculture, like many industries, is experiencing considerable rationalisation. At one end of the scale farms are getting bigger. There is less demand for labour and increasing pressure for rationalisation to maintain competitiveness with international markets. Currently, there are about 145,000 agricultural establishments and the average farm business in Australia is worth in excess of $1.3 million. The median equity level in Australian farms is in excess of

85 per cent, meaning that farmers carry, on average, just slightly more debt than average households. With industries that have more regular income, this gearing ratio is a little bit lower, such as dairying, where you get a regular income stream from milk cheques.

What you are finding in Australian agriculture is that there are considerable changes to demographic patterns. With extensive agricultural industries such as broadacre farming, with wool production, cattle production, grain production, there is decreasing demand for labour. However, with intensification of certain industries, particularly in areas where water is used to produce horticultural products, also with intensive industries such as poultry, pigs and whatnot, there is increasing demand for labour and, as you have probably noted, you find that population demographics tend to cluster around economic activity, particularly where there is strong demand for labour.

What that means in rural and regional Australia is that there is a fundamental shift in population centres and, following on from that, it means that services that are provided to those areas tend to gravitate to where there is a population base. What we have noticed with rural lending is that markets are reasonably competitive, particularly with the entry of RaboBank, and there are a number of pastoral houses that operate in the industry. The margins, we understand, are at least comparable to those that banks receive with other forms of business lending. Generally they are strong relationships that are established between agribusiness lenders and primary producers, and relationships that are established over many years, which sometimes increases the switching costs, given that those relationships are so strong and often there are some fairly strong loyalties there as well.

What we have picked up from our network of contacts and our own observations is that some of the barriers to better services in rural and regional areas relate to barriers to technology, such as telecommunications and other technologies, but there is quite a considerable increase in service innovation and product innovation in agribusiness lending. Because of the commercial incentive, banks devote considerable resources to getting that relationship right and providing services that the market demands. Recently, the National Australia Bank announced the dedication of resources, particularly resources in Albury, to operating out of Albury specialist agribusiness services to support their network of rural lenders.

There is also a lot of mobile lending that occurs in agriculture, so, although farmers have direct access to over-the-counter facilities, there is a strong commercial imperative for banks to maintain a level of service to primary production businesses, particularly as they are rationalising, and to get bigger often means you need access to capital and have to borrow more.

Another point that we have made in our submission, you will notice, is that there is a little bit of a cultural bias against change in rural areas. One of the things that we have noticed is that, although services seem to be improving, there is still a gap with service expectations. I think many people in rural and regional Australia—and I come from rural and regional Australia—notice things happen in the city and expect the same level of service. While the levels of service you are receiving are increasing, they are often not increasing at the rate of expectation, which is benchmarked against urban services.

They are the main points that we would like to make. We also note that, with service delivery, there is considerable innovation in the delivery side, with giroPost and Westpac in stores and some of the products that have been rolled out by Woolworths. Banking is changing quite significantly in rural and regional Australia, both in the products that are delivered and the delivery mechanisms.

CHAIRMAN—That completes your introductory remarks?

Mr Harman—Yes, sir.

CHAIRMAN—We will move to questions. Can I ask the first question, in general terms. The big issue, in terms of perception, media and community angst, has been the physical closure of bank facilities. In a real sense, how important is a physical bank facility to rural people, in terms of being able to conduct the transactions that they need to conduct?

Mr Harman—It is fairly important, and a little bit more important for some of the residents, as opposed to farm businesses. With a lot of farmers, because they have such big debts and outstanding loans, there is a fairly strong incentive for the banks to service them to the level of their satisfaction. One of the points that we wish to make is that there is a little bit of a distinction between looking at rural lending from the point of view of farm businesses and access to services for people who are in towns, particularly where there is a declining population. Some of the solutions that the committee may wish to consider to address issues may not necessarily be appropriate for farmers or needed for farm lending. To answer your question, it is increasingly less important, I suppose.

CHAIRMAN—But it is more for the town residents, rather than the people out on the farms.

Mr Harman—Yes. It is still important, because farmers are also residents of towns. Their families quite often shop in local areas and things like that. A lot of farmers run credit accounts with local stores and machinery suppliers et cetera, so there is less exchange of money than there might be in some other communities, which is a point to note. It is still of importance but less so, with mobile lenders and some of the new technologies at the moment, particularly with the younger generation of farmers that are coming through; I think they have a very progressive attitude to these sorts of things. By the same token, there are still many farmers that, perhaps because of their demographic profile or cultural bias to change or whatnot, still rely on the over-the-counter services.

CHAIRMAN—But town businesses that are generating cash receipts need a facility to deposit cash.

Mr Harman—Certainly, and we should make the point that we are probably talking on behalf of agriculture, fisheries and forestry industries and their stakeholders.

Mr Jones—The answer probably varies a lot by region and type of customer, depending on their demands and alternatives. If you are a reasonable sized business and you have Internet access and a mobile banker coming to you, you might not have any problems. For other people who are less mobile or less confident with alternative technologies, it is a problem. Even in Canberra, that is an issue. There was an example in the Canberra suburb of Curtin, where a major bank was going to close its branch and there was a local hue and cry, notwithstanding that the same bank had a branch maybe two kilometres away.

Physical presence and proximity is important for people and there will obviously be people out in the bush who do not have the sort of access they would wish. If they are in a very small community, there are obvious limitations on the extent to which banks can maintain a viable business there. As you are aware, the government has addressed this to some extent through its rural transaction centres, of which there are something like 124 at the moment. They are providing some face-to-face services, cash services and others. That is addressing the problem in some communities, but obviously not all.

CHAIRMAN—When a particular bank brand closes a branch, do you have any information as to whether it leaves an agency arrangement in place in that town or whether it completely abandons the town? Do you know, where branches have closed, the extent to which that has completely eliminated that bank providing a service in that particular town or in which towns they have established agencies as an alternative?

Mr Jones—We have no evidence on that, but you could perhaps ask Transport and Regional Services, who run the RTCs, whether they keep statistics. Certainly, when the RTCs were being set up, people collected information on distance to the nearest bank and things like that. When a bank closes in one town, depending on the population density, there may be another bank just a few kilometres away or, if you are in a very remote area, it might be a very long way to the nearest regional centre. It varies very much case by case. We do not have any aggregate statistics about that subject.

CHAIRMAN—From your perspective or your knowledge, what services that town residents require would have been provided by a bank branch that are not provided by the agency? Obviously lending facilities and those sorts of things, but what about in terms of basic banking facilities?

Mr Harman—Cashing of cheques and things like that can be quite important, but they can generally be dealt with through some of the other delivery agencies. I do know that banks have certain protocols in place when they withdraw services. They try to make sure that there are other services in town whereby the same products can be delivered through an agency type of arrangement. Also, from what I understand, they devote some resources to shifting people to other platforms when they do withdraw from some of these towns.

Senator BRANDIS—Are those protocols uniform across the banks? Are they an agreed set of protocols among the banks or does each bank have its own set of practices?

Mr Harman—As I understand it, the banking industry as a whole has adopted something of a code of practice that they will follow, but I cannot comment any further than that.

CHAIRMAN—What I am trying to get a feel for is how disadvantaged people are when a bank branch closes. What can’t they do that they could have done with the bank branch there? Are bank branch closures creating real difficulties for people or is it more the fact that they create a perception, ‘Our town is being abandoned, which represents the decline of our town, and they don’t care about us’? Is the response a result of an actual detriment that is being caused to people or an emotional perception that it creates?

Mr Harman—It is probably not a strong vote of confidence in the future of the town when those sorts of services are removed. Another important element—and this is something that affects us all, regardless of where we live—is that, if you want to resolve an issue, it is always a lot easier if you can go in and resolve that issue face to face. When those services are removed, you are talking to a customer service agent on a phone. Sometimes you have to ring back, you get a different customer service agent and you have to go through the problem again and explain it. That is certainly a major issue.

There is also fairly high resistance to change when a bank pulls out of a rural area, because people like that face-to-face and personal contact, particularly when they are dealing with issues of money. They like to feel that security. Many people these days have a number of different debit facilities relating to individual accounts. They may have their electricity bills and their rent, for example, and a whole range of things that are automatically deducted from their bank accounts and they like to bank with somebody who has confidence in the future of their town and where they can develop a personal rapport over the counter.

Senator BRANDIS—And who understands the nature of their business.

Mr Harman—Certainly.

CHAIRMAN—You say in your submission there are some areas of Australia that:

> ... still do not have adequate infrastructure delivery platforms to supply technology-based services in an efficient manner or a sufficient population density to warrant installing such infrastructure.

Obviously this is going to hamper the uptake of new service delivery methods. Has there been any noticeable recent improvement compared to earlier periods in terms of technology availability?

Mr Harman—Certainly the feedback we are getting is that those services have improved. It should also be noted that there are a lot of areas where it is probably not economical to provide on a commercial basis telecommunications and other services, general infrastructure services, and that leads to a bit of a shortfall in the provision of services relative to other areas.

Mr Jones—That question is obviously under notice through the Estens review. We have not had a chance to study in detail to what extent there has been a measurable improvement over time. I understand there has been, but we have not dissected the Estens report.

CHAIRMAN—Do you feel that rural telecommunication services, particularly as they relate to banking services, can approximate what is available in the metropolitan area, or will there always be a significant gap? What sort of a gap is likely to persist?

Mr Jones—Again, that is a technical question. Some places in the cities have very high bandwidth available and in some country areas there is quite low bandwidth. There would be a large capital cost to increase that. It raises issues of whether government is or should be giving CSOs to providers. That is way beyond our expertise.

CHAIRMAN—What about the cost of gaining access to banking services through telecommunications technology in the country compared with the city? Is that an issue?

Mr Harman—I think that has partially been addressed with some of the services on offer. For the cost of a local call you can have access to the Internet in most parts of Australia, as I understand it. Sometimes bandwidth is an issue for people but, as technology improves and it becomes more cost effective to roll out new technologies, I expect some of those disadvantages to disappear.

Mr Jones—In some cases it is an issue of cost. You can have a satellite dish and get your links that way but there is obviously a sizeable capital cost for setting it up in the first place.

Mr HUNT—I have three areas that I want to look at. I apologise if you have covered them, but we had a series of divisions which took people from the House of Representatives from the inquiry. The first one is to follow up on something that the chairman was discussing in relation to cash flow, meaning either withdrawal of cash or, more particularly, depositing of cash and, in particular, coinage; there is some mention of it in the submission. There are other options and alternatives for many of the other banking services in rural areas if there is withdrawal of a service point. Is that a recurrent problem, particularly for small businesses, in towns where there are no bank outlets? My understanding is—and correct me if I am wrong—the giroPost system, which is spread out, is still not able to cater for that problem.

Mr Harman—It is something that we have not had much experience with, because it deals predominantly with businesses that are residing in small rural towns, as opposed to farm businesses. I would expect what you are saying to be the case, based on my own observations from where I originally come from.

Mr HUNT—The second one is, have you found that people in the rural service towns, the very small ones, are willing to work on community banking projects? There has been an expansion in community banks but it does require some sort of financial commitment from people who want to participate.

Mr Harman—Again, our experience is fairly limited. I gather that it has been quite variable. Some towns get behind the community banking initiative and others do not; they are unwilling to put up the cash and the proposals do not seem to get off the ground.

Mr HUNT—Looking at possible solutions, one of the issues raised was having a relationship with a banker within the town. If that is not available, is there any service for rural communities where they have designated customer managers for phone services? If I am, let’s say, a Junee farmer, is there someone who would be my designated manager, even though I do not have any special banking requirements? I am not aware of anything and I am wondering if you are.

Mr Harman—I am not aware of that. I do know that some of the call centres are now moving to face-to-face operators rather than having to go through the keying in of a series of numbers.

Mr HUNT—How does face to face operate?

Mr Harman—When you dial some of the call centres now, I notice that you get through to an individual customer service operator to check out some options, as opposed to having to go through a series of typing in numbers on the keypad. My comments are not particularly relating to banking; these are my own views as a customer. Some of the service providers are recognising that there is a benefit to the customer and a strong demand for a personal customer service operator.

Senator WONG—I have a couple of quick questions. You have made some reference to the ABA's code of practice. Are there any aspects or additions to that which you think would advantage the industries and communities that you deal with? Do you have any suggestions on that?

Mr Harman—No, I do not have any suggestions. I am aware of the code of practice and I have seen it.

Senator WONG—You have referred to what I think you describe as 'transitory solutions'. I assume you mean between the brave new world and the world we are currently in, in terms of different ways of delivering these services.

Mr Harman—Yes.

Senator WONG—Do you have any suggestions as to what those might be?

Mr Harman—I do not think we had anything specific when we put those points down. We are looking at issues like the changing size of towns and things like that, so that sometimes there may be a temporary solution that may be more satisfactory than something that is permanent, given the demographics of rural population change.

Senator BRANDIS—Mr Harman, I want to go back to your observations a little while ago about cultural change and resistance to cultural change in the bush. I will put a couple of propositions to you. It seems to me that, to the extent to which banking and financial services are provided through new technology—Internet banking, for instance—those services are going to be uniform right across the country. Whether you are in the CBD in Sydney or Melbourne or you are in the most remote corner of Australia, you will get an identical uniform service, as long as at that remote location you have access to the technology. Would you agree?

Mr Harman—That is correct. It is difficult to differentiate your product based on geographical location.

Senator BRANDIS—So access to or availability of banking and financial services becomes, at source, an issue about access to technology rather than differential access to financial services.

Mr Harman—Certainly, yes.

Senator BRANDIS—If we go to the question of cultural change, I just wonder to what extent concerns that may be expressed by people in rural and regional Australia are indeed reflective of a resistance to change in banking practices rather than a well-grounded objection to the availability of banking services. Would you agree with that?

Mr Harman—I would agree with that, yes. Many residents of rural Australia perhaps do not have the network of contacts that you may have in urban Australia, where people are constantly exposed to new ideas, new technologies and things like that. There is a little bit of inherent resistance because of that. If you are living in rural Australia, you are mixing in different circles and not mixing with the CBD crowd that you may in Melbourne or Sydney.

Senator BRANDIS—I suspect that in some quarters there may be a failure to appreciate, for example, that people in the capital cities do not have ready access to a bank manager these days, because increasingly the delivery of banking and financial services is through new technology rather than the old face-to-face contact that people are perhaps more accustomed to. In more conservative parts of the country, the change from those old habits dies hard.

Mr Harman—That is very true, and we tried to communicate those sentiments in our submission as well. Also, I think it should be recognised that in rural and regional Australia there are some very progressive people. There are some people that adopt technologies very readily. Possibly what you are seeing there is a polarisation. There are people that are adopting technologies at the same rate that those in urban Australia are and there are those that are perhaps a little bit reticent to take on board new technologies.

Mr Jones—The difference being, for urban dwellers, that they have more alternatives. They can perhaps drive a few kilometres to another branch whereas, if you are in a remote location, that option is not so readily available.

Senator BRANDIS—Quite, but my point to Mr Harman, Mr Jones, is that if you are doing your business over the Internet, for instance, it is going to be the same for you wherever you are.

Mr Jones—I was thinking more of the people who are less well educated, less technically savvy or older and not prepared to learn new tricks. That is less of a constraint if you are in the city and have other options.

CHAIRMAN—That leads me to this question: are the banks making a sufficient effort to encourage people to use the new technologies that are available, where the telecommunication service delivery is adequate for that? Certainly, they advertise Internet banking and so on, but are they consciously going out and, for instance, showing people how they can do this and how they can actually simplify their banking through the use of technology?

Mr Harman—That it is certainly something they could do better, and that is evidenced by the fact that there are concerns out there. But I would imagine that they would be a little bit reticent to devote too many resources to changing certain of their customers to new technologies if those customers are not profitable at the moment, and that is possibly where the problem lies.

Mr Jones—Speaking from personal experience with my bank, I get a fair amount of correspondence from them offering new services and encouraging me, a few years back, to do telephone banking and, more recently, Internet banking. If they are sending similar letters to everyone around the country, they are at least putting the options before them.

CHAIRMAN—I am the same. You get this every time you get your bank statement or whatever, but you tend to ignore it. I really need someone to knock on the door and say, ‘Come on, I’ll sit down here with you at your computer and show you what to do and how to do it.’

Perhaps if they adopted that sort of more active approach, people might take it up more and therefore be happier.

Mr Harman—I think that is a reasonable assumption. However, I do not know whether they would be prepared to devote the resources to doing that for people with minimal amounts of money in their accounts.

Mr GRIFFIN—One thing they have done generally is to increase their fee structures on face-to-face banking in order to encourage people to adapt new technology to their circumstances.

CHAIRMAN—With regard to the revised banking code of practice, do you think it is adequate now or are there areas where it still perhaps needs strengthening?

Mr Harman—We have not looked at it closely. It is a little bit outside our domain of responsibilities. We look at these sorts of matters when an issue arises, but it is not something that we actively monitor. While we have had a look at the banking code of practice and noted it, we have no firm views on it.

CHAIRMAN—In your submission, you refer to the fact that agribusiness has benefited from a continuous stream of new financial products, including long-term interest-only loans, FMDs et cetera. Are there business areas in agriculture, fisheries and forestry that have not benefited from competition in the provision of financial services and have difficulty in attracting investment?

Mr Harman—Not to my knowledge. Certainly, there are sectors of Australian agriculture that would like to attract greater capital than they do at the moment, particularly venture capital and some of those forms of business growth. No, I am not aware of any areas of Australian agriculture where there is inadequate competition.

CHAIRMAN—The NFF submission refers to difficulties that farmers and regional communities have in obtaining equity finance. What are the advantages of equity finance as against debt finance for people in rural Australia?

Mr Harman—This is something that is being kicked around quite a bit at the moment. Some of the superannuation funds, particularly, are looking for new forms of investment and they could possibly take equity stakes in farm businesses. I think there are a couple of impediments to that at the moment. I understand some of them are regulatory. I have no further details to elaborate on that but, as with any business, you have to get to a certain size where you can go to the bank and borrow some more money. Sometimes a better form of business expansion is via equity rather than debt, and the introduction of equity investment options in agriculture in the long term would certainly be of benefit to the sector.

Mr Jones—I expect a major impediment is an unwillingness of farmers to cede an equity in their property, so it would be on the demand side as well as the supply side.

Senator BRANDIS—Could you elaborate on that by reference to any statistical or even anecdotal evidence?

Mr Jones—Certainly not offhand.

Mr Harman—One of the issues, as I understand it, is the nature of farm businesses as sole traders or partners, and sometimes that can create legal impediments if you are looking to gain equity finance. That is certainly one impediment.

Senator BRANDIS—I do not understand that. What legal impediments?

Mr Harman—Liability issues and things like that. If you are looking to get equity finance and somebody is coming in to provide an equity contribution to your farm, if legal issues arise there are issues for the farm business as an entity, such as who should actually be the party in any legal action.

CHAIRMAN—To what extent do farmers today use a different entity to own their farmland, as distinct from the farm operating business?

Mr Harman—In my experience, I do not think it has changed that much over recent years. I think there are still trust, partnership and sole trader arrangements, with a couple of proprietary limited arrangements as well.

CHAIRMAN—But would the majority have their land in a different entity from their farm business operation or does it tend to be all aggregated into the one?

Mr Harman—As I understand it, it is generally aggregated into the one, but it is not something I have a great knowledge of.

CHAIRMAN—That could be an issue if you are looking for equity. Equity would mainly go into the land, wouldn’t it? If you had a separate entity that owned the land, that would make injecting equity easier.

Mr Harman—Yes. I think they are some of the legal issues and, as I understand it, there are a number of options currently kicking around. The Rural Research and Development Corporation has been active in funding the examination of issues in this area. Sometimes the sole trader status of farmers and their other trading status is a barrier to them getting equity finance.

CHAIRMAN—In terms of the superannuation funds making investments, is the relatively small scale of rural operations—whether it is farm businesses or other businesses—a disincentive? Superannuation funds tend to look for perhaps larger scale investments than would be involved with farming.

Mr Harman—Certainly that is the case. There have been issues that are currently being explored whereby you could take a portfolio approach and you would have an intermediary that would bundle together a whole lot of properties. There would be possibly avenues there to inject equity through that intermediary and spread the risk, both geographically and the business risk that pertains to individual operations.

Mr GRIFFIN—Would you care to expand on the comments in your submission with respect to rural transaction centres, as to how you see them going?

Mr Harman—The agricultural communities are reasonably positive. They see them as a good innovation and a good complement to existing services. We do not have a lot of detail beyond that, but I understand the Department of Transport and Regional Services will be in later and can provide more detail.

CHAIRMAN—Thank you to each of you for appearing before the committee, for your submission and for answering our questions.

Mr Harman—Thank you. Hopefully we have been helpful.

CHAIRMAN—Indeed you have.

[5.21 p.m.]

OXLEY, Mr Stephen, Assistant Secretary, Social Programs and Reconciliation Branch, Office of Aboriginal and Torres Strait Islander Affairs, Department of Immigration and Multicultural and Indigenous Affairs

PALMER, Mr Bryan David, Senior Adviser, Service Delivery and Performance Section, Office of Aboriginal and Torres Strait Islander Affairs, Department of Immigration and Multicultural and Indigenous Affairs

CHAIRMAN—Welcome. The committee prefers that all evidence be given in public but should you at any time wish to give evidence in private you may do so and the committee will consider your request to move into camera. We have before us your written submission, which was numbered 123. Are there any alterations or additions you wish to make to the submission before we proceed?

Mr Oxley—No.

CHAIRMAN—I invite you to make a brief opening statement, following which we will proceed to questions.

Mr Oxley—Thank you, Senator. Thank you for the opportunity to appear before the joint parliamentary committee and to provide input into your inquiry into the level of banking and financial services in rural, regional and remote areas of Australia. OATSIA, the Office of Aboriginal and Torres Strait Islander Affairs, which we represent, is a small multidisciplinary team located in the Department of Immigration and Multicultural and Indigenous Affairs. Our role is essentially to provide high-level advice to the minister in regard to his ministerial and parliamentary duties and on issues of relevance to Indigenous affairs. We also undertake analyses of policy and issues that affect Indigenous people.

In the context of this inquiry I should point out that we do not come to the issue of banking and financial services as experts. In developing the submission, our office has drawn on our participation in and knowledge of a range of activities over recent years that touch on the provision of banking and other financial services to Indigenous people. These would include—not in any order of merit or time frame—the banking workshop convened earlier this year by Reconciliation Australia; the work of the Council for Aboriginal Reconciliation in promoting economic independence for Indigenous people; research papers prepared by the Centre for Aboriginal Economic Policy Research at the ANU; the Australian Securities and Investment Commission's report on Indigenous consumer problems with book-up practices; and the Australian Competition and Consumer Commission's store charter which was released earlier this year.

From these sources we have synthesised a number of themes around the provision of banking and financial services which we believe are important in terms of the government's commitment to overcome the social and economic disadvantage experienced by Indigenous people. Before I quickly run through those issues I would like to highlight the general socioeconomic and geographic circumstances of Indigenous Australia which are directly relevant to the inquiry.

Firstly, Indigenous people experience significant disadvantage in social and economic terms by comparison to other Australians. In February 2000 the unemployment rate was 17.6 per cent for Indigenous people and 7.3 per cent for non-Indigenous people; I cannot imagine that differential will have moved since then. The Indigenous unemployment rate would be significantly higher if the Indigenous Work for the Dole scheme, the Community Development Employment Projects scheme, was not counted as employment. ATSIC would estimate in excess of 40 per cent unemployment in those circumstances.

In 2001 the median individual weekly income for Indigenous people was $231 compared with a non-Indigenous median of $387. Incomes in rural and remote areas the subject of this inquiry are typically lower than in urban areas and the differential also is greater. Compared with non-Indigenous families, there is a greater proportion of single parent Indigenous families and Indigenous families typically are larger, both by way of direct relations and the extended family often living in shared accommodation. Indigenous people typically have lower educational outcomes and poorer levels of English literacy and numeracy, which are significant issues in the context of this inquiry.

The 2001 census indicated that for any age group non-Indigenous people are between two and three times as likely as Indigenous people to use a computer at home. That has significant implications in terms of things such as access to Internet banking. Also, the typically lower incomes of Indigenous people in remote locations mean that few receive financial services over and above what is necessary to access income support arrangements.

In geographic terms, while Indigenous people comprise only 2.4 per cent of the population, they make up more than 10 per cent of remote Australians, and more than a third of them are in remote Australia, so they have their own set of issues in that regard. The proportion is growing, in part due to higher fertility and in part due to migration out of rural and remote areas by other Australians. Of the 1,200-odd discrete Indigenous communities identified in the 2001 Community Housing and Infrastructure Needs survey, over 1,000 are located in very remote Australia. Of these, 577 have a population of less than 20 people, so we do have some very small and very isolated communities. CAEPR, who have also made a submission to the inquiry, have noted that some 16 per cent of Indigenous people live more than 80 kilometres from a bank, compared to just 0.6 per cent of non-Indigenous people.

Broadly, there are three issues that we consider critical. The first is addressing barriers to using existing services, particularly in relation to poor levels of literacy and financial skills among Indigenous people in remote locations. In this area there is room for financial service providers to be more competitive and to build a relationship with Indigenous consumers that is of benefit to both the bank and the consumer in what could be characterised as a community service obligation. It is an appropriate contribution for them to make to national reconciliation. An example of a good project under way at the moment is in Cape York, which was featured last night on *Australian Story* on the ABC. There is a four-way partnership between a number of communities, the Westpac Bank and the Commonwealth Department of Family and Community Services.

As a general observation, the trend in banking services over the past decade has demonstrated that the traditional bank branch office is not economically viable in small communities. This leads us to our second point, that finding alternatives to the traditional bank branch office network is an important priority for Indigenous communities. We think this necessitates tapping in effectively to the telecommunications and information technology revolution which is under way, expanding access to the infrastructure support services like Internet banking, phone banking and BPay. These are being addressed currently through important programs like Networking the Nation, the extended zone two-way satellite Internet service, the pay phone initiative being undertaken by Telstra, and the development of the telecommunications action plan for remote Indigenous communities by the Department of Communications, Information Technology and the Arts.

CHAIRMAN—Mr Oxley, could I just interrupt. Could you just excuse me for a few minutes. I have to go and speak in the chamber. Senator Wong, could you take the chair while I am absent, please.

Mr Oxley—Also, it is very important to continue building on kiosk type arrangements and points of presence such as are provided by rural transaction centres and the giroPost network of Australia Post, because the provision of face-to-face banking services is an important thing for Indigenous people.

Finally, we believe that there may be opportunities to provide safe and reliable financial services by regularising the book-up arrangements which exist in many remote areas, book-up being the practice whereby community stores and other traders allow Indigenous people to purchase goods and services on credit on the basis that they will then pay on receipt of income, generally in the form of income support. This has been the subject of quite a deal of public discussion this year.

The third area which we think merits some focus is home purchase financing and home ownership, which we consider is an important tool in breaking the intergenerational cycle of welfare dependency in Indigenous communities. We think banks should be encouraged to examine opportunities to provide home and business loan products targeted at the needs of Indigenous people and that, together with ATSIC and local communities, there are opportunities to look at creative methods of providing home loans to people living on community Aboriginal title land, where there have been historical impediments to use of that land as security.

In conclusion, we believe there are substantial opportunities for old and new financial service providers to work with Indigenous people and communities to build financial literacy, increase access to banking services and ultimately to build the wealth and social capital of Indigenous Australia and the nation more broadly. I conclude by reminding you that we are not experts but we are very happy to provide what commentary we can on these issues.

ACTING CHAIR (Senator Wong)—Thank you, Mr Oxley.

Mr HUNT—My first question is about the issue of home equity. You mentioned the US and Canadian systems, and I am not expecting that you would be an expert on them, but you would be much more informed than we are. How do they work in terms of accessing equity on traditional land? I am not sure if there is a distinction drawn here between equity in the land and equity in some of the physical buildings which might be on the land. How do they work, do we have any assessment of how effective they are, and what actions would you need to take in order to apply them in the Australian context?

Mr Oxley—I am not familiar with the situation in the United States. The little bit of information I have relates to how the Bank of Montreal has operated in Canada, where it has gone from having, about 10 years ago, $10 million worth of business with Indigenous communities to about $1 billion. The issues of community-held land, community title, are common to Australia and Canada, and what has happened in Canada is that the Bank of Montreal and, I understand, other banks have worked closely with the community governing councils or the tribal councils in a number of parts of Canada. The arrangement they have is that the tribal council, the governing body, acts as the intermediary between the bank and the Indigenous person who wishes to obtain finance for the property, and they have a set of arrangements whereby if the individual does not make repayments, then the governing council itself is the one that takes responsibility for dealing appropriately with those clients who have fallen into arrears, and that can go as far as the governing council of that Indigenous community actually moving to evict the purchaser, in the same way as would happen in normal circumstances.

Mr HUNT—How does the bank guarantee itself security, though? If there is somebody who is in default and they evict them from the community, how does that assist the bank? What is the incentive for the bank to provide a loan? The incentive must be some form of security. I am interested in how the bank gets—

Mr Oxley—I would have to go back and do a bit more research on this for you, Mr Hunt, but my understanding is that the security is essentially the strength of the governance arrangements that operate within that Indigenous community. There is, I guess, a degree of good faith in that relationship.

Mr HUNT—So it is ultimately a non-realisable asset?

Mr Oxley—It is a non-realisable asset, but the risk the community takes in not being prepared to realise the asset at the time that that needs to occur, and therefore make that house available to someone who is prepared to meet the obligations to the bank, is that they lose, as a community, the benefit of access to that banking service.

Senator BRANDIS—It's really a business judgment, isn't it?

Mr Oxley—Yes.

Senator BRANDIS—I mean, it is not secure at any—

Mr Oxley—Except in a metaphorical sense.

Senator BRANDIS—In a metaphorical sense.

Mr HUNT—It is the minimisation of risk rather than the provision of a formal sort of charge.

Mr Oxley—Yes, that is correct, and in terms of its applicability in the Australian context, I would venture to say that there are opportunities there for those issues to be pursued in the many areas of Australia where Indigenous people live on community-held title land.

Mr HUNT—And what would be necessary, in your opinion, to advance that process in Australia? Is there anything we can do, any recommendations we can make?

Mr Oxley—I think it requires firstly a preparedness by the banks to actually examine the opportunity for these arrangements. There is certainly also some interest—and Minister Ruddock has pursued this through the Ministerial Council for Aboriginal and Torres Strait Islander Affairs—in examining whether there are any state based legislative impediments to the use of community-held title land as security for purchasing, whether for home ownership or for small business development or small business lending, and the ministerial council is currently going through a process of examining those state based legislative regimes. I know that in the case of Tasmania there have recently been some amendments made to the Tasmanian legislation in order to facilitate the use of Indigenous-owned land and community-held land as equity for such purchases. I would be quite happy to see if we can dig out some information for you on that particular example.

Senator BRANDIS—Other than the different nature of the tenure of real property which might be offered as security, what do you say are the other distinctive differences, if any, between Indigenous communities and comparably situated remote communities who are economically disadvantaged that are not Indigenous communities when it comes to banking and financial services? I understood perfectly well the important difference about the nature of the security that can be offered to secure borrowings, but what are the other differences, if any, specific to the character of Indigenous communities and their needs from the financial system?

Mr Oxley—I am not sure that I could readily identify such factors, although I would suggest that perhaps there would be some cultural issues there that might have an impact to some degree. That would go to essentially the Indigenous kinship arrangements and the very strong obligations within family for the sharing of resources, and those obligations may act to make it difficult for some Indigenous people to be able to realise the value of their income, of their earnings, given that they have obligations within community and family that they have to meet.

Senator BRANDIS—From the bank’s point of view, that will reflect a business judgment as to the security of its transaction.

Mr Oxley—That most probably would. I do not pretend to be qualified to go into detail on that issue but I think it would be something to be considered.

ACTING CHAIR—What about the different literacy levels which might exist between an Indigenous and non-Indigenous rural community, in particular financial literacy?

Mr Oxley—Financial literacy is a very significant issue, Senator Wong. Senator Brandis asked about comparably disadvantaged communities. I assumed, when I answered that, we were talking about comparable in all regards, but there is no doubt that Indigenous people generally have lower levels of English literacy and numeracy and, in particular, financial literacy, which is consistently identified as a barrier to Indigenous people accessing banking services generally.

Senator BRANDIS—That is a generic problem, isn’t it? That is obviously a great problem, but it is not a problem specific to or peculiar to the financial system.

Mr Oxley—No. Literacy and numeracy generally are problems for Indigenous people. It is not confined to the financial system. However, financial literacy and capability are significant issues for Indigenous people.

ACTING CHAIR—You mentioned at the outset that one of your primary concerns obviously is the level of financial literacy amongst Indigenous communities and how that impacts upon their ability to not only access existing services but to exercise reasonable financial management. You said you thought it would be useful if the banks engaged in part of the educational process for that. Could you expand on that and, in particular, talk about how the government might encourage that?

Mr Oxley—My first observation is that, in looking at some of the submissions that have come forward to the inquiry and, in particular, those submissions from Indigenous organisations such as the Gulin and Weemol Community Council Aboriginal Corporation, they clearly identified financial literacy and management skills as significant issues within their communities. I think they would be reasonable examples of the problem. In terms of how one goes about encouraging the provision of assistance in developing financial literacy skills, we hold the view that there are good community service reasons why the financial sector should provide some level of support to Indigenous communities to facilitate their financial management skills.

Indeed, we have seen through the example of the Westpac Bank a recognition of the need for that kind of support. The Westpac Bank is involved in a couple of projects, one in Alice Springs where it has been involved with the Aboriginal organisation there—the Tangentyere Council—in providing ATMs in Indigenous communities through the organisation and then training organisational people in its management and helping Indigenous people themselves to understand how to use that facility. The second project is financial income management trials, which are being held in three communities in Cape York. They are the sorts of community service opportunities that are being taken by Westpac to improve financial literacy, albeit in a small number of areas.

More broadly, my understanding is that, through the focus that has come onto Indigenous financial literacy in the past 12 months or so, including through the banking workshop held earlier this year by Reconciliation Australia, which was partnered by a number of organisations including Indigenous Business Australia and ATSIC and supported by the banking sector generally through its attendance and support, the Australian Securities and Investments Commission has indicated a strong interest in helping to develop some financial literacy material which could be disseminated to Indigenous communities. I am not sure what stage that project is up to, but it would seem to us to be the appropriate body to be involved in that kind of work. It is a good example of how governments generally, through their departments and agencies, can be involved in promulgating some activity.

ACTING CHAIR—Do you think there is any way in which the government might encourage the banks to be more actively engaged in these sorts of partnerships?

Mr Oxley—The activity that is going on at the agency and departmental level now is, so far as I can see, strongly supported by the government. In terms of government encouragement, the government has indicated its preparedness to look very carefully and seriously at these issues. The Prime Minister, as I understand it, has in fact asked the secretary's advisory group on

Indigenous affairs—which has essentially a role of overseeing the whole of government coordination trials which are happening under the auspices of ATSIC—to look at the issue of Indigenous access to banking services generally.

ACTING CHAIR—One last area is the identification problem, which I think is the points system that most banks use before you can open an account. I think your submission says there are problems with that for some Indigenous people. How extensive is that problem?

Mr Oxley—I am unable to comment on the extent of the problem. Our evidence is anecdotal, and we understand that Indigenous people have had difficulty in establishing their bona fides from the point of view of opening accounts.

ACTING CHAIR—Do you have any knowledge of any measures taken by the banks in those areas to deal with that?

Mr Oxley—No, I am not aware.

Mr GRIFFIN—You mentioned regularising the book-up program and practice. Can you expand on how would you do that?

Mr Oxley—Yes, I can, Mr Griffin. Earlier this year there was, as you know, quite a lot of interest in the question of book-up and both the Australian Securities and Investments Commission and the Australian Competition and Consumer Commission have been examining these issues. In March ASIC published a report *Book Up: Some Consumer Problems* which identified a range of issues flowing from the practice of book-up. Issues include consumers being tied to one retailer for all their purchases, with the retailer often charging much higher prices than competitors; lack of access to funds when stores are closed; lack of transparency, where poor records are kept; the potential for fraud and theft and exposure to increased liability for unauthorised transactions; and denying consumers the chance to develop electronic banking skills—generally around this practice of holding onto their bankcard and the PIN numbers and then, when the social security cheque comes in, making the transaction on behalf of that person to take the owed money out, therefore removing the capability of that individual to make decisions about the priority use of resources, including for buying food and so on.

The difficulty is that, notwithstanding the potential for the book-up practice to be used against the interests of Indigenous people, it can work to the advantage of Indigenous people. It can allow them to manage their finances effectively if it is not used inappropriately by those people who are offering the credit in the first place. ASIC identified a number of areas where it felt some further work could be done, not the least addressing the underlying causes, such as financial illiteracy and poverty; prohibiting or attempting to eliminate retention of debit cards and passbooks; supporting consumer education and skill development; and improving access to relevant or alternative financial services.

In parallel with this, the ACCC has developed and released Store Charter. That was done in consultation with a number of Indigenous organisations and other advisory and regulatory bodies. It is essentially a voluntary code of practice by which the stores in these remote areas should be dealing with Indigenous people. In one of the worst-case examples, where you had Indigenous people clocking up huge amounts of credits with pubs for the purchase of alcohol, the Western Australian government acted very quickly and the Liquor Licensing Authority in Western Australia banned publicans in the areas from undertaking the book-up practice.

Mr GRIFFIN—You hear the occasional horror story about thieves, particularly in remote areas, stealing from ATMs and so on. There have been quite a number of cases. Do you get many complaints of that nature coming through to you guys?

Mr Oxley—No, we are not the sort of organisation that would be exposed to that sort of information.

ACTING CHAIR—Have you had the opportunity to consider the Code of Banking Practice, or is that not something you have looked at?

Mr Oxley—No, it is not something we have looked at, Senator.

ACTING CHAIR—So you would not be able to comment on what might be included in it that might facilitate some of the sorts of solutions you are talking about?

Mr Oxley—No, I am sorry, I am not able to comment on that.

ACTING CHAIR—Thank you very much for your time, Mr Oxley and Mr Palmer.

Mr Oxley—Thank you.

Proceedings suspended from 5.51 p.m. to 6.34 p.m.

BLAIN, Ms Helen Dorothy, Assistant Director, Rural Transaction Centres Program, Policy and External Relations Section, Department of Transport and Regional Services

DAVIES, Mr Paul Christopher, Director, Rural Transaction Centres Program, Policy and External Relations Section, Department of Transport and Regional Services

PEARCE, Ms Kelly, Acting Assistant Secretary, Regional Access Branch, Department of Transport and Regional Services

CHAIRMAN—I welcome officers from the Department of Transport and Regional Services to the hearing. The committee prefers all evidence to be given in public, but should you at any stage wish to give part of your evidence in private, the committee would consider such a request to move into camera. We have before us your written submission, which we have numbered 127. Are there any alterations or additions you want to make to the submission at this stage?

Ms Pearce—Nothing to the written submission.

CHAIRMAN—I invite you to make a brief opening statement at this stage and then we will move to questions.

Ms Pearce—I have been told that it is best to apologise up-front for the lateness of the submission, so sorry about that! I will cover some of the items in the submission in my statement. I would like to briefly cover the nature of the Rural Transaction Centres Program and its role in helping communities with financial services and other kinds of services in rural, regional and remote Australia. RTCs are community managed facilities. They provide access to a range of services, which might have been withdrawn or might not have existed within a town. It is a program that is aimed at towns of fewer than 3,000 people.

Like other programs in our portfolio, regional programs particularly, it recognises that one size does not fit all and that community driven solutions with the right professional advice—in our case, things like Field Officer Network—are more likely to be enduring and to meet local needs. To date, we have 124 RTCs that have received approval and there are currently 65 communities which have operational RTCs. Of those operational RTCs, there are 26 which deliver a financial service through either a bank, a credit union, a building society or a community bank. A further 31 approved RTCs will have financial services.

The program has also assisted with grants to eligible licensed post offices for installation of the electronic point of sale or RTC EPOS. One hundred and one communities have gained access to some form of financial service through the EPOS process and 14 of the 124 approved RTCs will also have EPOS. Given the effects of the withdrawal of financial services on local investment and employment prospects in a small community, we recognise that banking and financial services are often fundamental to maintaining independent, cohesive small communities.

The program maintains a very strong interest in the provision of banking and financial services to rural and remote communities and we do encourage their inclusion, where appropriate, in RTCs. However, the demand for services in regional Australia is not just about banking. Consistent with our legislation and with government direction, the program enables communities to set up RTCs, where we find it is sustainable, to deliver a range of other services. That is looking at things like Internet access, Centrelink and Medicare Easyclaim. It might also be in conjunction with setting up rooms for professionals to visit, whether it be health professionals or others. It might even be the banking industry coming into town and providing advice through those rooms. It is not a program aimed only at financial issues; it is broader than that.

We are big into co-location so that RTCs can be co-located with existing businesses such as post offices, credit unions, council chambers and telecentres. Alternatively, it can stand alone. That is really up to the community and their business plan. In some cases, we have found that it is simply not practical to have a financial institution in an RTC. There is a range of reasons for that. It might be that there are other banks in town and we do not wish to have an RTC compete with banking institutions that are there already. It may be an issue of viability for that service, in that there is not the business there to actually support it. The community simply may not want to set up a bank, particularly in the early stages of an RTC, because of the complexities that go with it. RTCs are another example of a community based approach to services. There are other examples such as telecentres, community technology centres and other sorts of resource centres set up around Australia—centres that deliver a broad range of services, not just financial.

We found that the benefits of RTCs go beyond simply providing a service. Young people might gain their first employment or training opportunities in such a community environment. The centres are a focus for skills development and transfer and, even when you are looking at financial services, there are some capacity building issues offered in communities and this can be a focus for that.

RTCs aim to assist in building strong, resourceful communities. The communities set their own priorities, identify business opportunities and develop proposals to best meet their service needs. Consultation is fundamental to that, if time consuming, but it is part of our process and quite vital, we think. An RTC is a small business. It needs to be viable into the foreseeable future and thorough business planning assists that initial development and potential future expansion of operations in RTCs. Again, while that is a time-consuming process, it is a vital step in setting up a sustainable community enterprise. Like any small business, the more planning that has gone into it, the more likely it is to be effective in the long run, and that is what we are about: sustainable services.

Finally, I would like to make the point that financial institutions, for us, are key partners in our program and we are continuing to explore a range of options for participation with the sector and different models for approaching things. We feel that this inquiry is rather timely in furthering discussion about the development of banking services in regional Australia and the potential for partnerships between communities, government and private sector, so we will be very interested in your findings. From our perspective, it could be quite useful.

CHAIRMAN—Thank you very much for that introduction. You say that, of the operational RTCs, there are 26 which deliver a financial service. That is 26 of the 65, I assume.

Ms Pearce—Yes.

CHAIRMAN—What are the factors which have caused the other 39 not to have a financial service and, following on from that, has that been found to be a shortcoming in those RTCs in relation to the particular communities they serve?

Ms Pearce—There are a variety of reasons why you might not have a financial institution in an RTC. Some of the examples I gave are things like the community simply deciding that it does not want to at this stage. What we are finding with some of those is that, now that they have found their feet, they are actually coming through. They have a bit of expertise behind them and they are thinking about the next step. In that sense, the community's confidence in handling these issues can be something that stops them. It can also be, as I said, other financial institutions in the area—actually in the town—and we do not want, as a government program, to cause competition issues. There are also the issues surrounding financial viability. Because we are looking at sustainable businesses, if they do not have the transaction body, for example, that will give them the commissions to sustain that particular part of the business and they do not have anything really to cross-subsidise it, then the business plan would show that that was not financially viable. Those are the sorts of things. Did you have anything to add, Paul?

Mr Davies—No. They are the main reasons.

CHAIRMAN—I can understand obviously that if existing financial institutions have been retained in the town that covers the required field, or if the community itself decides they do not want it. Are there examples—and, if so, can you tell me how many—where the community actually wanted the financial facility to be part of the RTC but it has not translated into having it?

Mr Davies—We could not provide that to you here and now, Senator, but we could certainly provide it to you at a later date. That would be easy to do.

CHAIRMAN—Thank you.

Mr HUNT—I have four questions. The first one is systemic and it is filling in information for me. Could you characterise the nature of funding under the RTC program as effectively being a one-off capital payment or is there a recurrent payment over a series of years?

Ms Pearce—There are recurrent components in some aspects. It depends on what we are looking at.

Mr HUNT—I am just trying to understand exactly what is funded so I can draw a distinction between the capital component and the viability question.

Mr Davies—Certainly. The capital component can include a range of things: building a new building; refurbishing an existing building; internal fit-out; purchase of equipment such as IT equipment and other equipment that the RTC may need, and fit-out items, including counters and things like that. In terms of ongoing funding, some of the significant costs that an RTC has would include things like a salary component, cost of utilities and, as part of a business plan, all of those are itemised as part of the income and expenditure. So we can see what their costs are going to be. They are required to give us a prediction of their future income and expenditure for three financial years. So we can see whether they will be making ends meet and whether their expected income will be increasing and can make a judgment, often in conjunction with the community, as to how much of a subsidy we can provide to them.

Mr HUNT—Is there a statutory maximum in terms of years or a policy maximum in terms of years?

Mr Davies—There is a statutory maximum until the program ceases on 30 June 2004.

Mr HUNT—So you can only fund in terms of ongoing commitments until 30 June 2004?

Mr Davies—Yes.

Mr HUNT—That leads me to the second question of viability. You can build in a component of support or subsidy into their viability analysis, and that will now, by definition, disappear to zero after 30 June 2004?

Mr Davies—That is correct.

Mr HUNT—And after that it would have to be self-sustaining until you designate an operator, manager or an official recipient of the funding arrangement?

Mr Davies—Absolutely. We have a contract with an organisation that is deemed to be the manager of the RTC. That could be a community organisation. Often it is local government or sometimes a partnership between local government and the community organisation. Those people sign the contracts with us and they are then responsible for delivering on that and providing us with regular reports on how the RTC is going, the expenditure of the Commonwealth money and providing us with a report at the end of the contract.

Mr HUNT—And if in subsequent years, say by 2007, they decide that it is no longer either necessary or viable, they will reap the benefit of any capital value that has accrued for the premises that have been bought or refurbished?

Mr Davies—Yes, that is correct. What we are trying to do is to establish small businesses that will provide services to the community. At the end of the day we are hoping that they will be able to provide those services by gaining income from the service providers that are included in the RTC and then expanding their businesses as well.

Mr HUNT—The third question is about financial services available under the RTC and follows on from the chairman’s question. Can you take me through the range of financial services that might be available under an RTC, from minimum to maximum.

Mr Davies—There is a very broad range and it really depends upon the individual location. Taking it in a couple of chunks might be an easy way to do it. I do not know about minimum and maximum, but here are a couple of chunks. EPOS, which basically gives a licensed post office the capacity to get onto the Australia Post giroPost network, is one of the most basic forms, but it is also one of the most powerful in many ways. It gives them access to a full range of financial institutions and bill paying organisations and, in some cases, gives them access to business banking as well.

The next group could be included in credit unions and banks and community banks. They would vary considerably, depending upon the local requirements and what the community was looking for. It could be a simple deposit and access to funds process, over the counter or through an ATM. It may be an arrangement whereby they have access to funds through a post office or through another organisation. That also could give them opportunities to pay bills as well. That is at the lower level of financial services provided through banks and credit unions. At some of the higher levels it could include financial advice, taking out personal loans and home loans, business banking and investment advice, personal investment advice and things like that. That would more than likely be on a—

Mr HUNT—Visiting basis?

Mr Davies—Yes, a visiting professional basis, a visiting banker basis.

Mr HUNT—Providing chambers?

Mr Davies—Yes.

Mr HUNT—That leads to the fourth question, EPOS. My understanding is that EPOS has been rolled out in a series of tranches and that there is a question about the staging or the timing of the third tranche. Could you explain the different tranches or phases of EPOS rollout and where they stand?

Mr Davies—By all means. As part of an agreement between ourselves and Australia Post, we have split the rollout of EPOS into four phases. The two basic criteria are whether the licensed post office is conducting more or less than 5,000 manual transactions. Phases 1 and 2 are more than 5,000 manual transactions, phases 3 and 4 are less than 5,000 manual transactions, and whether or not there is a financial institution in the town. So phases 1 and 3 are where there is no financial institution in town, and phases 2 and 4 are where there is a financial institution in town. There are four options there from the two alternatives.

We have completed the rollout of phase 1, and 101 licensed post offices have been provided with EPOS through that program. We are in the process of rolling out phase 2, and there are about 48 licensed post offices that fall into that category. We are currently going through a process with those post offices and the financial institutions to gather their comments on whether it should proceed or not, because one of the issues we need to be able to manage is not competing with an existing financial institution in town. So there is an issue there that needs to be managed through the process.

Once phase 2 has been completed, we will undertake an evaluation of how successful that has been, including whether the number of transactions has increased and whether the post offices themselves have become financially viable. Then we will make a decision about the rollout of phases 3 and 4, which are currently on hold.

Mr HUNT—Do you have any rough expectation of when you will be deciding on phase 3? I understand the criterion is once phase 2 is completed, but—

Mr Davies—It would be difficult to put a precise time on it because it takes some time for the trend data from transaction levels to arrive. We are really only getting good trend data now on phase 1, about eight or nine months after the last one was installed. Given that phase 2 is more complicated than phase 1, we expect we will be able to have all of those completed by early next year. About this time next year we would have an idea as to how phase 1 and phase 2 LPOs are transacting. We could make an informed judgment on it and evaluate those two phases.

Mr HUNT—If I had one which qualifies as a phase 3 prima facie, we are looking at 18 months?

Mr Davies—Yes, I would suggest at least that long.

Mr HUNT—I have a question about policy here. Haven’t you got phases 2 and 3 out of order; shouldn’t the goal be to fill a gap where there is no financial institution in a town?

Mr Davies—There are two competing policy issues—you are quite right—to fill a gap, but the other competing one is the long-term viability of the post office. Many of the post offices in phase 3 and 4 were well below 5,000 annual transactions. One of the issues about sustainability is that Australia Post charges the post office 43c for every transaction less than 10,000 transactions per year. Where they are transacting less than 5,000 transactions, that could end up being a significant amount of money that the post office would need to pay to Australia Post. They would only pay Australia Post, I hasten to add, after the end of the RTC program. We will provide those shortfall fees, as they are called, until 30 June 2004. But for phases 3 and 4 they need to find those shortfall fees after 30 June 2004.

Mr HUNT—Which would amount to $2,600 a year for a 4,000-transaction post office.

Mr Davies—That is right. It was competing policy issues about providing financial services to towns where they had a licensed post office without giroPost but also wanting to make sure that we were not providing a service that was going to become financially non-viable and a burden on the post office and the community in the long term.

Mr HUNT—Thank you.

Mr GRIFFIN—I may have missed this when I was outside, so I apologise if that is the case, but could you very briefly just go through for me how you decide where an RTC goes and what process occurs at the commencement. How do you get an RTC?

Ms Pearce—Firstly, the community needs to be 3,000 or under. In some ways it is up to the community then to go through a process of consultation and business planning to make a case for a rural transaction centre.

Mr GRIFFIN—So it is similar to a community bank almost.

Ms Pearce—That is right.

Mr GRIFFIN—It is generated by the community as a request, rather than a question of centrally looking at where branches have gone and what is left. That is basically the main point to it?

Ms Pearce—That is the main point of our program, yes.

Mr GRIFFIN—You mentioned that you are at various stages in terms of the rollout of the program, in effect. Is there a review process occurring on an ongoing basis? When will we find the next tranche of stats that will give us a better idea of how it is going? What I am looking at is in the context of this inquiry. From what you have got there, it sounds as if there are some good things happening, but it is very early. Our inquiry will be going on for some months, so what I am trying to look at is the question of whether in three months, six months, or whatever time, you are likely to have more information that will help us with our inquiry or whether you will still be in an embryonic stage.

Mr Davies—We have undertaken what we are calling a post-implementation review, which was a limited review of five of the rural transaction centres, just to give us some idea of how well they are going and how the communities have found the process they have had to go through. It is an onerous process and we do not withdraw from that. That was completed in June this year. What we are now doing is implementing the second phase of that and doing a further, more comprehensive review which will be commencing probably by the end of this year or early next year. A final report on that we are not expecting until about June but some early indications could be in about March. We would be happy to share those early indications with the committee if the committee wanted that.

Mr GRIFFIN—That would be good. With respect to your submission, you have a list of financial institutions that are currently involved in a range of different RTCs, and also an appendix which lists them. One question I have is on Braidwood. On page 6 of your submission under the headline of 'Banks' you have 'Westpac', then in brackets 'Braidwood'. On attachment A, when I look at Braidwood, it has it down as a Reliance Credit Union. Have I misread that or is there a mistake there of some sort? Am I stupid? It happens sometimes. I thank my colleagues for not taking advantage of that comment!

Mr HUNT—It was internalised.

Mr GRIFFIN—At page 6?

Mr Davies—Yes, we have the information there.

Mr GRIFFIN—Is it actually Reliance or is it Westpac?

Mr Davies—We believe it should be Westpac but we might just check that and get back to the committee.

Mr GRIFFIN—No worries. The question on from that is that it seems that overwhelmingly that it is not banks that are taking advantage of this opportunity. Could you comment on that? Is it because the major banks have withdrawn from those areas and that is why RTCs are going in, that the credit unions and building societies are more flexible and, therefore, tend to fill those gaps, or is there some other reason?

Mr Davies—I suspect there are a couple of reasons. The first one we observe is that local communities, because they are making the decision about who they want to provide those financial services, are often looking for someone local; hence the rapid increase in community banks and credit unions in particular, because they are often local also.

Mr GRIFFIN—You only have one community bank there. I make the point; that is all.

Mr Davies—Yes, I understand that. What I was referring to there was that there are a large number of communities who are looking for community banks. By and large, they look for a community bank but do not look for an RTC because they are looking for those banking services. But we recognise that there is a large increase in communities looking for community banks. Because communities are looking for a financial service that is local, they often turn to a local credit union. Having said that, we have had discussions with some of the major banks recently and they are realising there is an issue there for them. For example, Westpac is specifically looking at locating in-store agencies in rural and regional areas.

Mr GRIFFIN—You mentioned 'them'. If I were to paraphrase the four major banks in terms of—at least in a public sense in more recent times—their view on community facilities and playing a role of a more constructive nature, given recent history with service delivery, I would say ANZ and Westpac talk the talk and sometimes walk the walk, whereas NAB and Commonwealth, in my view, do not at all much. You mentioned Westpac by name. Are other ones of the major four expressing an interest or not?

Mr Davies—We are having discussions with a number of the major four banks. I would not like to comment on which ones.

Mr GRIFFIN—You have commented on one of them.

Mr Davies—Yes. I commented on one because it was a good example but I would not like to comment on which was—

Mr GRIFFIN—The others aren't good examples? Okay. We would like some advice sent to the secretariat, if we have not had it already, on particular RTCs that it might be worth while for us to go and see in order to get a firm idea of what sorts of things are being done—for example, if they are innovative or more developed than others. There is no requirement for you to do that now, but certainly it would be very useful if you could let the secretariat know of particular locations.

Ms Pearce—Certainly. We have had that discussion.

CHAIRMAN—The Finance Sector Union stated that 49 RTCs had been opened. Now there are 65, as you have indicated tonight. They say that this is 'hardly an adequate replacement for the thousands of branches closed across the country'. They are referring to bank branches obviously. Would you like to respond to that statement?

Mr Davies—Was this in their submission, Senator?

CHAIRMAN—Yes.

Mr Davies—The information in their submission, as we have seen and as you have said, is based on 49 and the date that they have there is 2001. Since then there has been a significant increase, as you can see, in the number of approved RTCs. We are in the process of undertaking 300 or more business plans and there are more communities continuing to apply, so over the life of the program in the next 20 months to two years we would expect that number to continue to increase.

CHAIRMAN—In addition to the 124 that have been approved, of which 65 have been opened—or is it 124 in addition to the 65?

Mr Davies—No, of which 65 have been opened.

CHAIRMAN—There are another 130, almost double that, that are at some stage of being considered.

Mr Davies—That is right, yes, and potentially more still coming onto the program.

Mr GRIFFIN—How many more would you expect to come onto the program?

Mr Davies—The rate has certainly slowed down in terms of numbers of applications but it definitely has not slowed down to a level where we would be concerned. It is a few a week, and that is sufficient to keep the numbers in the program high.

Mr GRIFFIN—I am confused by the term 'high'. I know it is hard to be specific but, if you are saying that you are receiving several applications a week on average, how many of those applications are likely to be followed through? I imagine there are some applications that have folded. Do you have a percentage or an average for that?

Mr Davies—There are a number of different critical stages. The first stage is the community wanting to apply for business planning and, of those who apply for business planning and then go through to complete a business plan, it is generally about an 80 to 90 per cent success rate. Of those communities who, once they have completed their business plan, then apply for an RTC, again it is about an 80 to 90 per cent success rate. It is a very high success rate. They do not necessarily achieve an RTC with the first business plan or the first application. Often there are issues that they need to continue to explore, so they may come back at another time, after they have resolved those issues. It is not necessarily 80 to 90 per cent of the first cut, but over a period of time it certainly is high.

Mr GRIFFIN—With the 124 you say you have now, you are talking about what you would roughly expect on an annual basis, I would think. If you are talking about several applications a week—the 150 figure—and go to 80 per cent of that, then 80 per cent of that at the next stage, you are getting down to the 120 mark, I would think.

Mr Davies—The 124 is a result of business planning activity from the inception of the program to date, that is, since mid-99. That is taking into account the fact that in the early days of the program the uptake was slow but for the last 18 months or a little longer the uptake has been considerably faster than that and it is in the last few months that the uptake has started to slow a little.

Mr GRIFFIN—You are still talking about, over four or five years, maybe 400 or 500 RTCs all up, aren't you?

Mr Davies—If we include the EPOS RTCs, we are certainly looking at 350 to 400.

Mr GRIFFIN—If you included them?

Mr Davies—Yes.

Mr GRIFFIN—That is probably half, though, isn't it—the EPOS ones?

Mr Davies—No, it would be less than half, so potentially 150.

Mr GRIFFIN—You are probably talking about 300 or thereabouts. The point I am getting to is that, although I would not be surprised if you did not want to answer the question, the view that RTCs are going to basically take care of what the FSU is talking about, I think, is stretching it a bit, simply by virtue of the number of branches that have closed, many in situations where there were only one or two branches. The issue of the number of RTCs that is equivalent to maybe 25 per cent or less of that number of branches means that it is not really going to do the coverage.

Mr HUNT—There is a lot of double counting, I think, in what you are looking at.

Mr GRIFFIN—I think I allowed for the double counting, Greg, when I said that, frankly. I am just talking in general terms. I accept it is part of an answer. That is what I am saying. I just do not think it is the answer.

Ms Pearce—Without being able to analyse that thousand—that is, bank branches—as to what else is in the town where those branches are, it is a bit hard to give you a clear reply about whether our program is meeting the need or not fully meeting the need. We have this aversion to competing with a financial institution and, if there is still a branch there and one down the street has closed, we would not necessarily have a financial institution in the RTC. It is very difficult, without getting into their data, to give you a clear answer. That is the problem.

Mr GRIFFIN—Sure. I understand.

CHAIRMAN—What is the shortest, longest and, if you like, average time that has been taken from the first significant interest that a community shows in establishing an RTC to finally having its doors open?

Mr Davies—We have done a bit of work on this just recently. The average is about 12 to 13 months from beginning to operation. The shortest is probably around eight or nine months. It is not a lot shorter than the average. The longest will be a couple of years.

CHAIRMAN—The Upper Murray Regional Library has made a submission in recognition of the lack of services in rural and remote communities. In conjunction with one of the councils, they have been pursuing the concept of a mobile rural transaction centre. Are there mobile RTCs and, if so, could you give us some details on those?

Mr Davies—There are no mobile RTCs at the moment but it is a concept that we have been looking at. The WA Telecentre Network has some mobile telecentres and we have looked at some of the technology that might be needed to have a mobile RTC. Alternatively, if it is not mobile, it might be called an outreach where a location might be available on an agreed basis once a week, or whatever it might be, within a town for people to do their RTC type business. We are certainly looking at that. There are some issues about mobile RTCs, or mobile anything, accessing the Internet and some technology issues that need to be overcome there which we are aware of. It is certainly something that a number of communities have proposed to us but we have not come up with a solution or an example at this point in time.

CHAIRMAN—The Regional Telecommunications Inquiry referred to the importance of online access centres as a source of services for remote communities. How widespread are those centres? Do they work in conjunction with the RTCs or are they quite separate?

Mr Davies—It depends how you define 'online access centres'. Wherever there is a centre—telecentres are an example in Western Australia; online access centres as they are called in Tasmania; community technology centres in New South Wales—they are all fairly similar in providing the general community with access to the Internet. Where possible, we try and co-locate with those because of the obvious advantages to the community and to the entity itself in terms of longer-term sustainability and trying to present it as a one-stop shop for access to the Internet and provision of services.

CHAIRMAN—With those communities that have sought to establish RTCs and either not proceeded with the application or the application has not succeeded, what has been the main reason for the failure to establish an RTC? They have reached the serious stage of actually indicating they want one, but then—

Mr Davies—One of the main reasons for communities dropping out—or, if not dropping out, then putting it on hold—has been that a community leader has moved on, passed away or has too much to do, and often the community leader is a leader in a whole range of areas. It often gets put on hold for a period of time until someone else picks it up. It is fairly common—not just in rural transaction centres, but with any program that is community driven, especially in regional Australia—that you rely heavily on those sorts of people. What we find is that, where a community has that level of leadership, they are often quite able to get something up and running fairly quickly whereas, if that leadership is not as well-defined, it does take them some time.

CHAIRMAN—I thank each of you for appearing before the committee, for your submission and for answering our questions. It has been very helpful.

[7.17 p.m.]

BEAUCHAMP, Ms Glenys Ann, Executive Director, Community Development and Support, Department of Family and Community Services

SMITH, Mr Barry, Assistant Secretary, Indigenous Policy and North Australia Office, Department of Family and Community Services

THOMSON, Ms Jenny, Business Manager, Service Development, Indigenous Community Segment Team, Centrelink

SALVAGE, Mr Robin, National Manager, Rural and Housing Segment, Centrelink

CHAIRMAN—Welcome. The committee prefers all evidence to be given in public but if at any time you wish to give part of your evidence in private you may request that of the committee and we will consider that request to move into camera. We have before us the written submission from the department, which we have numbered 101. Are there any alterations or additions that you want to make to the submission?

Ms Beauchamp—No.

CHAIRMAN—I invite you to make a brief opening statement, at the conclusion of which we will proceed to questions.

Ms Beauchamp—As you are probably already aware, the Department of Family and Community Services is responsible for a broad range of social policy issues affecting Australian society and the living standards of Australian families, communities and individuals, so the focus is primarily on those that are disadvantaged compared to the rest of the community. The department recognises the importance of access to banking services, enabling people to participate in today’s society.

Research has identified a risk that some groups may be unable to participate fully in economic and social structures if they lack access to banking and financial services. Those groups include people on low incomes, people receiving welfare payments, households with individuals who do not have a secure job, people with limited education, single parent households, people from diverse cultural and linguistic backgrounds, elderly people, young people in households who have not yet made use of financial services and many in our Indigenous community. The department notes that location can also affect access to banking and financial services, thus placing people in such groups who also live in remote locations at risk.

Some of the groups that I have just listed may require particular services or strategies, such as training in financial literacy and appropriate technology, in order to ensure effective access to banking and financial services. Our submission describes some of the factors affecting access to banking and financial services for these groups and some strategies and options for enhancing access to these services. Some of these options are innovative and experimental and obviously further work is required in order to demonstrate their feasibility or utility and ongoing sustainability.

The department's submission notes encouraging evidence that some rural communities are adapting to the changing financial environment that we all face. We believe it is important to continue to monitor access to banking and financial services in rural and remote areas to ensure that communities or specific groups, particularly the ones I have outlined, are not marginalised. Do you want me to go through the submission?

CHAIRMAN—No, that is fine. I note that a lot of your submission does in fact focus on issues relating to Indigenous people.

Ms Beauchamp—That is correct.

CHAIRMAN—One of the issues you raise is the issue of financial literacy; basic money management skills and so on. Are you aware of whether any studies have been undertaken to assess financial literacy across Australia? If so, what levels exist in different regions of Australia?

Mr Smith—The short answer is that there has not been a comprehensive study in terms of financial literacy. The studies into literacy are normally around literacy and numeracy and the studies into financial literacy have been probably more case studies than comprehensive nationwide studies.

CHAIRMAN—Would there be value in a study of that nature being undertaken, to provide information that would be useful in terms of policy determination?

Ms Beauchamp—I think it would be useful information to add to our evidence, in terms of targeting products or developing products to those groups that are finding problems in accessing services. There are probably a couple of reasons that people find access to services and banking difficult. One might be infrastructure, but the other is actually the capacity as an individual and the community to access those services, so it probably would be worth while.

CHAIRMAN—Do you know why one hasn't been undertaken till now?

Mr Smith—Just adding to the point that Glenys was making, to do a total national survey probably tells you where you need to target services, whereas a national service survey is not necessary to tell you that there is an issue and the types of services that you need to provide. If you wanted to go into an exercise where you mapped need on a geographic location and client group basis, then you would probably do a total survey, or almost a census. But, if you just wanted to know what action you needed to take, case studies and particular geographic plots that would have a certain homogeneity about them would probably be sufficient.

As you know, to conduct a total national survey, as in a census, is horrendously expensive, and that is why most often people will not go down the line of doing a total census but, rather, would go down the line of doing case studies and looking at homogeneous groups to work out the services required.

CHAIRMAN—To the extent that there are reduced services in some regional or rural areas, do you believe that exemplifies market failure and, if so, would increased regulation solve the problem?

Mr Smith—In rural and in particularly remote areas, not just in the financial area but in probably most areas of service provision or most areas of even private provision, you would find that the level of service is not equal to the level of service in areas where there is a much greater critical mass, and therefore you would probably say that there is a supply failure. Often, people talk about market failures, but it really is a judgment as to whether or not the critical mass exists. That tends to be the problem with small populations spread over very large areas—for example, in what is designated as remote Australia—which probably is very significant, maybe up to two-thirds of the landmass. You might have a population of about 300,000 people spread over that fairly vast area, whereas a place like Canberra would actually have the same population. So you could say it is a supply failure and a market failure, but there are fairly good reasons for it.

Ms Beauchamp—The way people do business—not particularly these disadvantaged groups—has been rapidly changing; therefore the market has been also rapidly changing, and the take-up rate from e-commerce and the like will certainly impact on what that market might be in 10 to 20 years time. It is very hard to predict, but certainly there are many case studies and the like into how people are adapting to the changing financial environment, and I think the physical location of facilities may not necessarily meet people's needs in the future, either.

CHAIRMAN—The Centrelink financial information service, you say, is a free and independent service which provides people with expert information in a friendly environment. Does that service have offices permanently placed in regional Australia?

Ms Beauchamp—I would have to ask my Centrelink colleagues.

Mr Salvage—The short answer is yes. I do not have the details of where they are placed, but the financial information service officers—or FISOs, as public servants are wont to call them—are based both in regional and metropolitan centres.

CHAIRMAN—Do people still have to travel long distances to get access to that advice?

Mr Salvage—The reality is that we cannot place a Centrelink person or even a financial information service officer in every centre. As an organisation, we have to make judgments based on the customer numbers and the likely uptake of services, so we do have them placed at strategic points around our network, and those judgments are reviewed on a fairly regular basis, based on customer demand.

Ms Thomson—And a number of them do conduct remote visits, community outreach. Whilst they might be located in a central regional location, they might actually travel distances of 200 to 300 kilometres out, depending on need and if the community initiates some discussion.

CHAIRMAN—One of the issues that has been raised in each of our inquiries on the financial services reform legislation—the draft exposure bill, the bill, and then our recent inquiry into the regulations and ASIC policy statements—was the issue of basic deposit products for banks being included in the definition of a financial product, for which training is required for front counter staff at banks and bank agencies. The argument has been put to us that incorporating those basic deposit products—term deposits, basic bank deposits and so on—within that definition would mean training requirements for front counter staff at banks being so onerous as to hasten the closure of facilities, particularly agencies, in rural and remote areas. Do you have any information on that issue? Has anything come to your attention? And, given your awareness of the level of financial literacy that you have referred to in your submission, do you believe there is a need for front counter staff to have the relatively high level of training that is going to be required under the FSR Act to deal with customers in regard to basic products, or not?

Ms Beauchamp—I have not personally come across it as an issue in terms of forcing closures of banks, but Barry might be able to talk about some of the things we are doing in terms of training in our Indigenous communities; I do not know if that meets the legislative requirements under the FSR Act.

Mr Smith—I will just take another step in regard to that. We talk in the submission about an integrated service network. In that integrated service network we have a community agent program and a Centrelink agent program. What has been our experience, in terms of even just training that group of people, is that the effort required, particularly in terms of community based or locally based people, is quite a significant burden in terms of the provision of training, and that probably is a fairly simple product. The product is very much about filling in forms and taking forms and giving people information. If one extrapolated from that then to the provision of quite complex information on banking products, certainly it is going to require quite significant levels of training.

One of the areas that we have been doing a little bit of work with around this is with the Traditional Credit Union in the Northern Territory, which is probably the only Indigenous-run credit union in Australia. There is a national credit union which is called Australia First, but that is really a national credit union run by a major bank with an Indigenous name and an Indigenous front end, whereas the Traditional Credit Union is very much the full product in terms of being in Indigenous communities and being staffed mainly by Indigenous people. One of the things they have found there is that they have had to have a very high commitment to training and that has been a very significant cost to the credit union. Because it is nonprofit, it can absorb quite a lot of that cost and put it back into training and capacity building in the community in terms of community staff et cetera. It has found that it has been quite successful at doing that, with quite a good retention rate in terms of staff, but it has basically been simple with products. Even that has been simple products. It has not gone into complex products like investment and it does not even get into the complex area of home loans. It is just simply around common transactions and fairly common products.

One of the areas that the department is working on with the Traditional Credit Union is simply clarifying, ‘If you want to do further training around the literacy, what are we talking about there?’ and it does find that there are basically three levels of training. One is the staff. One is the community, in terms of what banking is about, because a lot of Indigenous people are not quite aware of what it is about. Particularly in the remote areas, it is not a cultural phenomenon that they are really familiar with. From a hunting and gathering point of view, you do not have a lot of storage and depositing and taking to the bank.

Then the other area is the personal financial literacy. I will give you an example of that. In Alice Springs there is an Indigenous community organisation that services the Aboriginal town camps of Alice Springs, and we have been doing what we call the banking project but also the weekly payment project, and the level of literacy for very traditional Aboriginal people coming in from outlying communities can be so low that a person might not know even the denomination of a note. Your starting point with people can be quite significant in that area.

One of the things we had experimented with in the continuing work with the Tangentyere organisation is what would happen if you provided people with information technology like ATMs but you provided them with the training and support on a one-to-one basis. Through our Family Community Network Initiative project we funded bank liaison officers. The Westpac Bank provided an ATM. Tangentyere provided the environment and support service and recruited people to it. We found that one-on-one contact with the people in terms of training—using the ATMs, using the card system—and understanding has been very effective in terms of the number of people who have stayed in the banking system and are using the banking system as a very good management tool. It has been very labour intensive in terms of having to have five or six bank liaison officers for several hundred participants.

In conjunction with the Traditional Credit Union and Tangentyere we are looking at other models like the train the trainer program and then people can provide that one-on-one sort of training in a broader range of Aboriginal communities. We have started these very action-oriented research projects to look at what really will work and then see if we can replicate them, but probably not in the same intensive way. Part of that project was also looking at making weekly payments to people, which would give people smaller amounts of money to manage more often, to see whether or not that would achieve better outcomes for people in terms of money management and would overcome what we call the feast and famine cycle which we refer to in the document, and which is referred to by the ACCC as well.

The initial evaluation of that has proved to be very promising. The number of people who are managing money is much higher and the number of people who are going without food is much lower. We have been able to dovetail that with another initiative with Tangentyere where people can do almost what they call food banking. They can get a certain amount of their money directed into a food account and then they can draw food vouchers down on that account. This means that in terms of purchasing they know exactly what the value of the money is, where it can be used and how it can be used. We have been able to do that because we have used the Centrepay system through Centrelink to have the direct payment into the BANN. People can have some of that money directed into this trust account and they can draw down to buy food.

It is putting together a fairly complex range of initiatives because, as I said, with some of these people you are starting from a very low base. Quite a long time ago one of the old people from Daguragu said to me that his group of people—because they talk in Dreamings, which is stories and traditions and pattern of behaviour—did not have a money Dreaming. He said, ‘You white people actually do have a money Dreaming. You have the whole history of managing and using money,’ whereas the remote and very traditional areas have the cultural issue of not having that long history. That is something that is growing and we have to find ways to grow it both culturally and sustainably for those people.

CHAIRMAN—With the example you have just given, they actually draw down a food voucher rather than cash, do they, so it can only be used for food?

Mr Smith—Yes, they do. The people are given a quite distinct choice. It is not something that is required; the Centrepay system of directing funds to any other use is quite a voluntary thing. They do that to help address another cultural issue. In terms of Indigenous culture, there is a thing called 'demand sharing'. If you are trying to deal with somebody who is wanting demand sharing and they want to use that money for alcohol or gambling or some other use, then converting it into another product or another transactable note or whatever can help you manage that demand sharing. You are quite happy for demand sharing if it is around food but you do not have to give cash which then could be used for other products. That has been useful. Not everybody has used it but for some people it has been useful. The term is 'humbugging' but it is tied up with the demand sharing. Older people find it much more difficult to say no. Younger people probably find it easier to say no because they are probably a little bit distanced from that cultural requirement.

CHAIRMAN—Is this a service provided by the commercial banks?

Mr Smith—No, by Tangentyere, which is a community based Indigenous organisation.

CHAIRMAN—They hold the deposit?

Mr Smith—In a trust account, yes. The role the bank has played is very much in providing equipment and some educational types of products that the bank liaison officers can use. It has been quite an interesting partnership with Centrelink, who have provided an officer who works at Tangentyere. The Tangentyere provides all the coordination and supports the banking liaison officers. FACS has, in that instance, provided the funding for the bank liaison officers, so it has been a four-way partnership.

CHAIRMAN—This is a good news story.

Mr Smith—It is quite a good model.

CHAIRMAN—I had not heard of it. We haven't heard about it?

Mr Smith—It is in the submission.

CHAIRMAN—I know, but this is something that perhaps ought to be given recognition and publicity.

Mr Smith—We do not trumpet it too much because of the fact that it is early days. In the submission we do identify a few things that FACS and Centrelink are involved in. The Family Income Management pilot in Cape York is another quite different but powerful example of a process where the family is considered to be the unit of money management, as distinct from the individual. That is very much tied in with asset accumulation and money management as well. As I say, the work that we have been doing and will continue to do with the Traditional Credit Union is much more traditional banking type arrangements as well. We will continue to do our work with those and continue to expand those things gradually.

CHAIRMAN—Given the relatively unsophisticated level of financial literacy that you have referred to, are you aware of any instances where financial institutions, whether they be banks or building societies or credit unions, have acted unethically or improperly in terms of advice they might have given to such people as to the way they should manage their money and what sorts of accounts it should be deposited in or how it should be invested?

Mr Smith—No.

Mr HUNT—I have two questions. The first one is about the initiatives. In your submission you address a number of options within three principal options. One is around the use of Centrelink for extension of financial services. The second one is around financial literacy and the third is around interpretation services. In particular, what I want to understand is the spread of Centrelink agencies. My hypothesis is that they are less widespread than banking services in any event. Are there likely to be many places where Centrelink agencies exist where some form of banking service does not exist?

Mr Salvage—I think there are probably two parts to that.

Mr HUNT—I would delighted to be corrected if I'm wrong!

Mr Salvage—In traditional rural Australia, I think that would be the case. Certainly our agents network extends into communities of a certain size and, in fact, the next stage after that is often the RTC type model, which is a much smaller community. In that sense, that is correct. However, in terms of Indigenous communities, I am not sure if that is the case.

Ms Thomson—There are 146 Indigenous Centrelink agents located in remote Australia. There would be a proportion of those that would be in communities where there is currently no access to banking facilities, yes.

Mr HUNT—That is very interesting.

Mr Smith—In fact, I would go so far as to say that probably most of them are located in centres where there would be no banking services.

Mr HUNT—That does provide an option—not so much in the rural and regional townships, but in the Indigenous communities—for an extension of services.

Ms Thomson—There are over 320 Centrelink agents and 114 access points which provide self-service facilities. That is in addition to 320-odd customer service centre sites. I think we are one of the largest—

Mr HUNT—And most diverse networks in the service organisation in Australia.

Mr Smith—And, as I say, they probably have a good penetration into those very remote areas, which would be greater than the penetration of other groups.

Mr HUNT—Tell me if this is an unreasonable question for a supplementary appendix: would it be possible, do you think, to find—and it is not meant to be work for the sake of work, but for genuine reasons—those townships or communities, whether Indigenous or non-Indigenous, where Centrelink has an agent but there are no RTC or financial service facilities? What that would do is indicate how you might be able to fill the gap in some of those areas—in other words, communities where you have a presence but there is no RTC or financial service presence.

Ms Beauchamp—You are looking to leverage the Centrelink presence to provide a broader range of services to a broader range of communities?

Mr HUNT—Exactly, if it were possible to do that.

Mr Salvage—I just want to know if we can take that on notice.

Ms Thomson—Yes.

Mr HUNT—Take it on notice.

Mr Salvage—Yes. This was just establishing whether we thought there was at least one or more situations where that was the case, and that is our belief.

Mr HUNT—That would be a very valuable piece of information, because from the banks we are getting the towns where they have and do not have a financial presence. If we can twin that with where you have financial services, that would be a useful dual mapping exercise.

Ms Beauchamp—To clarify, is it just the banking type services?

Mr HUNT—Banking type services.

Ms Beauchamp—Through post offices and the like?

Mr HUNT—Yes.

CHAIRMAN—Full banking services?

Mr Salvage—Any banking type service?

Mr HUNT—Full and any, so you might want to grade it to those two levels.

Mr Salvage—We are talking about the provision of agent services, not Centrelink staff, which is going to reduce the level of transactions that can take place at that point.

Mr HUNT—I understand. We are looking at the most disadvantaged communities and how to leverage what is there.

Mr Salvage—Yes.

Mr HUNT—The other thing I wanted to do was to toss an idea forward, and this is whether or not, when you look at government as a whole and the inquiry that we are looking at—and we are concerned with the whole problem of rural and regional banking services—there is any scope for a lead agency which would coordinate intergovernmental action on rural and regional financial services and, if so, which agency might you imagine as being the most appropriate? One of the concerns is that the activities might not be properly coordinated.

Ms Beauchamp—Banking service activities?

Mr HUNT—Looking at the extension of financial services, through government or non-government actions, is the idea of a coordinating agency useful and, if so, where might it best fit?

Mr Smith—What you are asking probably falls into two categories and it depends on whether you want one agency to do both. In terms of many of the submissions you have received, the work falls into two areas. One is opportunity and the other is capacity. Opportunity is in relation to things like the products, the banks, the IT and the whole range of things that enable you to tap into transactions. The capacity side is much more about having the knowledge and literacy in relation to banking and the skills to operate in any of those areas.

The question could be asked in two parts: is there any organisation that could do the opportunity stuff, which is much more related to the products, and is there any organisation that is better suited to do the stuff related to capacity—the literacy and skills et cetera—or is there any organisation that could actually do both? It depends on how you want to cast the question really.

Mr HUNT—I am looking for the optimum arrangement. Is there any organisation which would be best suited to coordinate the carriage of both those activities, either through execution or through coordination?

Ms Beauchamp—Coordination is very important and there are a range of agencies that would probably be involved, whether it was transport, agriculture or fisheries. There are lots of different aspects and certainly our portfolio looks after the target group of disadvantaged people in terms of socioeconomics, the same as other specialist groups. You are talking about a much broader target group as well and I would be reluctant to take on, on behalf of FACS, the lead agency role. I think there is a need to make sure services, access and those infrastructure issues you are talking about—and capacity building—are well coordinated, but I do not know who would take the lead role in that. Maybe it is because it is only my second week with the department!

Mr Smith—It really depends, to a certain extent, on the point that Glenys made and that is that, if an organisation like Family and Community Services took on the role, you would ask the question whether it would then be characterised as a welfare type of system. If, say, somebody like the Department of Transport and Regional Services took it on, would it be characterised more as a regional type of response? I think most government agencies could take on and play the role, but it depends on how you would like to see the final thing pitched because, if you are talking about coordination, that is not necessarily the actual doing of it. I think that would need to be considered, as to how you would want the final product and the coordination process to be characterised.

Ms Beauchamp—We—including Centrelink—do work closely with other agencies too and Centrelink services are drawn on by a lot of agencies to deliver services as well.

Mr HUNT—I am just interested in the notion of a home with a national strategy and a multidepartmental approach. I think the idea has germinated, so that is good.

CHAIRMAN—On behalf of the committee, I thank you very much for your presentation to us this evening.

Ms Beauchamp—Can I just ask you for the timing of that information you are seeking?

Mr HUNT—This inquiry has a fairly long time frame. The last thing you need is a false deadline. We will still be sitting in January, won't we?

CHAIR—Yes.

Ms Beauchamp—So we have until next month?

CHAIRMAN—Once parliament rises, it will probably be early next year before we start doing our regional hearings, so you have at least until early next year.

Mr HUNT—Before the end of January, if that were possible.

Ms Beauchamp—Yes, that is no problem.

Mr Smith—If you are doing some of those regional visits, it may be useful to have a look at something like Tangentyere and the Traditional Credit Union.

CHAIRMAN—Yes, that would be very useful. Thank you very much.

Committee adjourned at 7.55 p.m.