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JOINT COMMITTEE ON CORPORATIONS AND FINANCIAL SERVICES

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

THURSDAY, 27 FEBRUARY 2003

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JOINT COMMITTEE ON CORPORATIONS AND FINANCIAL SERVICES

Thursday, 27 February 2003

Members: Senator Chapman *(Chair)*, Senator Wong *(Deputy Chair)*, Senators Brandis, Conroy and Murray and Mr Byrne, 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.

WITNESSES

CARROLL, Mr Mike, General Manager, Agribusiness Financial Services, National Australia Bank 299

CASSIDY, Mr Brian, Chief Executive Officer, Australian Competition and Consumer Commission 324

DEAN, Mr Jeremy, General Manager, Channel and Process Optimisation, National Australia Bank 299

GILLETT, Mr Gregory (Greg) Douglas, Chief General Manager, Retail, Bendigo Bank 333

JENNER, Mr Dennis, South Australia/Northern Territory Branch Chairman, Post Office Agents Association Limited 349

LEFEVRE, Mr Gordon, General Manager, Personal Financial Services, National Australia Bank 299

MacDONALD, Mr Ian, Executive General Manager, Financial Services Australia, National Australia Bank 299

McGRATH-KERR, Ms Marie, National Chairman, Post Office Agents Association Limited 349

O'LEARY, Mr Tim, Head of Corporate Affairs, Financial Services Australia, National Australia Bank 299

PALISI, Mr Paul, Acting General Manager, Adjudication, Australian Competition and Consumer Commission 324

PEARSON, Mr Mark, General Manager, Mergers and Asset Sales, Australian Competition and Consumer Commission 324

Committee met at 10.06 a.m.

CARROLL, Mr Mike, General Manager, Agribusiness Financial Services, National Australia Bank

DEAN, Mr Jeremy, General Manager, Channel and Process Optimisation, National Australia Bank

LEFEVRE, Mr Gordon, General Manager, Personal Financial Services, National Australia Bank

MacDONALD, Mr Ian, Executive General Manager, Financial Services Australia, National Australia Bank

O'LEARY, Mr Tim, Head of Corporate Affairs, Financial Services Australia, National Australia Bank

CHAIRMAN—Welcome. Today in Melbourne the Joint Committee on Corporations and Financial Services continues its 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.

Before we commence taking evidence, I wish to reinforce for the record that all witnesses appearing before this committee are protected by parliamentary privilege with respect to the evidence provided. Parliamentary privilege refers to the special rights and immunities attached to the parliament, its members or others necessary for the discharge of parliamentary functions without obstruction or 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 parliament or any of its committees is treated as a breach of privilege.

Unless the committee should decide otherwise, this is a public hearing and as such all members of the public are welcome to attend. The committee has before it your written submission, which we have numbered 118. Are there any alterations or additions that you would like to make to the submission at this stage?

Mr MacDonald—No.

CHAIRMAN—As I mentioned, this is a public hearing and the committee prefers that all evidence be given in public, but, if at any time you want to give evidence in private, you may request that of the committee and we will consider a request to go in camera. I now invite you to make a brief opening statement, at the conclusion of which we will proceed to questions.

Mr MacDonald—I am grateful for the opportunity today to briefly outline our approach to rural and regional banking services. In the business that I lead we have a very simple objective—that is, to be the financial services provider that Australians trust to meet their needs. Because of this objective, rural, regional and remote banking is important to the National. One-third of our customer base, or 1.2 million customers, reside in these areas. We aim to provide our rural and regional customers with outstanding levels of service. We do this in three ways: by having an extensive network of branches, financial services centres and other outlets; through best practice electronic banking channels; and personalised relationships with our customers.

Our branch network is vital. In fact, we have the largest branch network in rural, regional and remote Australia. Our definition of rural, regional and remote is very simple: we exclude capital cities and their surrounding metropolitan areas and Canberra. We have 53 per cent of our total network servicing 31 per cent of our total customer base: our rural, regional and remote customers. The National has more branches than any other bank in rural towns with populations of less than 10,000 people. We are also better represented than anyone else in those rural communities where there is only one bank in town.

We are proud of this leadership position and are committed to maintaining and improving on it. We are doing this in two ways. First, we are investing significantly in rural and regional Australia. This year, we will spend more than half of our physical network expenditure in rural and regional Australia. We also employ around 2,700 people across these communities. Second, we are committed to maintaining face-to-face banking services in every rural and regional community in which we operate. Specifically, where we have only one outlet in a rural or remote community we remain committed to that outlet for the next three years.

We have expanded our reach in regional centres through what we call ‘financial services centres’. These financial services centres are large commercial centres where we provide our customers with access to expert financial advice, ranging through personal, business, agribusiness, corporate and institutional services, as well as wealth management products and services. Financial services centres are a major new innovation for the National, the first of which was established in Toowoomba last year. Particularly pleasing has been the positive customer feedback. Customer satisfaction levels in Toowoomba last year were the highest in the National for any regional area, averaging in excess of 80 per cent satisfaction levels.

Last year, in addition to our branches, we established or approved for construction 14 financial services centres in key regional areas. We now have centres in Geelong, Coffs Harbour, Mackay, Albury, Wagga, Newcastle, Orange, Tamworth, Traralgon, Bendigo, Bunbury, Cairns, Townsville, Toowoomba and Shepparton. This work is not yet complete. We will continue to open new financial services centres in regional areas where appropriate on a case-by-case basis. We recognise the importance of regional centres as commercial and social hubs. We also recognise the increasing requirements of our rural and regional customers for access to a wide range of specialist services.

For the National, maintaining and improving on our leadership position in rural and regional Australia does not end with our network strategies. Supporting our branch network are best practice electronic banking channels and our extensive customer and banker relationships, which extend far beyond merely providing relationship services to our premium customers.

Every National farming customer in this country has a direct relationship with a National agribusiness manager. These relationships lead to long term partnerships with our customers, where we see them through the seasonal ups and downs of rural life. This has never been more important than today, where our customers are facing extremely difficult circumstances as a result of the drought. These agribusiness managers come from the bush, reside in the bush and work in the bush. They understand their customers’ needs. We also heavily recruit graduates from agricultural colleges across the country for this very same reason. Because of this partnership model, we now bank around one in three Australian farmers.

We recognise that not everyone in the bush is a farmer. For that reason, we have extended our relationship approach to other rural customers. Since 1997, we have provided our rural business customers with dedicated business relationship managers. Like our agribusiness managers, these business managers reside locally, are mobile and are happy to travel to visit their customers. These managers provide specialist advice to our customers across their total business needs. In 2002, we introduced a personal banker relationship for every rural home loan customer. This brings our 94,000 rural home loan customers into line with our metropolitan customers and provides them with a named relationship manager, whom they can contact directly, either face to face or on the phone.

This direct contact is important and responds directly to customer preference for regular and consistent contact. These managers understand customer financial needs, are trained to deal with more complex financial requirements and proactively contact their customers when they discover ways to save them time or money. We understand that this relationship approach is unique in this market. Importantly, in terms of access to products and services it closes the gap between metropolitan and rural and regional Australia.

It comes as no surprise that the last two decades have seen significant changes to the way people do their banking and the way they want to do their banking. This has been largely driven by the advent of new technologies and alternative banking channels—the rise of credit cards, debit cards, EFTPOS, BPay and other payment mechanisms as well as the introduction of telephone and Internet banking. New channels do impact old channels and, broadly speaking,. the banking industry’s response was to rapidly expand electronic banking alternatives while rationalising and reducing the number of branches or other outlets. Some took an aggressive approach while others were more conservative.

The National adopted a conservative approach which has led to us having the largest rural and regional network in Australia. In maintaining this network we have worked hard to balance the need for face-to-face banking with the security, ease, cost effectiveness and simplicity of electronic banking. Whatever the changes, great and small, they have impacted on our customers and seen banks criticised for what has been perceived as a loss of service.

Our decision last year to close 56 limited service rural agencies attracted considerable attention. For us, this was a decision made after careful consideration. The opening hours of the 56 agencies were limited. Similarly, the over-the-counter transaction volumes were low and the types of services available were also limited. After balancing the future investment requirements of these agencies against our customers’ needs, we decided to replace the 56 limited services agencies with a full-time Australia Post giroPost service.

We expanded the giroPost service to provide business-enabled facilities. Operating hours across the 56 communities increased from a total of 1,012 hours per week to 2,243 hours per week. We also provided on-the-ground information seminars advising our customers of the new ways of accessing National Bank services in their area. Feedback from our customers and other stakeholders suggests that, while they understand why we closed the limited services rural agencies, education on our alternative banking channels and consultation in relation to the closure decision could have been improved.

Notwithstanding the closure last year of the 56 limited services agencies, the National story in regional, rural and remote Australia is one of growth. Our recent introduction of the giroPost transactional banking services has expanded the number of transactional outlets for our customers in rural, regional and remote Australia by over 1,000. In fact, customers in approximately 600 locations who did not previously have access to a National point of presence are now able to access National services through giroPost. We have also recently expanded services in 12 rural communities where we had no physical presence to support specific development opportunities in those areas. We did this by expanding the giroPost service to provide business cash deposit facilities for our business customers in those communities, and we will continue to do this to support business development opportunities as we see them.

We are also involved in the federal government’s Rural Transaction Centres Program. We are in final negotiations regarding three new rural transaction centres in Mingenew, Western Australia, and Quambatook and Stanhope in Victoria. Each of these is an innovative and tailored solution and a specific outcome of community consultations in these locations. These initiatives further demonstrate our overall commitment to maintaining and improving our leadership position in rural and regional Australia. As I indicated at the beginning of my remarks, we have a very simple objective at the National: to be the financial services organisation that Australians trust to meet their needs. We are working very hard to achieve that objective. I thank you for your time and I welcome any questions that you may have.

CHAIRMAN—Thank you very much, Mr MacDonald. Yesterday afternoon one of our witnesses, Professor Ian Harper, put to us the thesis that the whole nature of banking was changing. Historically, for centuries, banking was a process of having a capital base which was basically the insurance providing the matching service between the mismatch of borrowers and lenders whereas now, particularly with the advent of technology and the speed of information, that whole system was changing to a much more market based system trading in securities. He put forward the view that, whereas the branch structure and that capital adequacy requirement and so on were essential for the old type of banking, the new type of banking did not require that, which inevitably meant that over time branches would become superfluous—not required. He also made the point that a range of financial services might replace that traditional form of banking. What is your response to that thesis?

Mr MacDonald—We would probably see that as a step too far at this point in time. There is no doubt that the pace of change in our industry in the last two decades has been as great as, if not greater than, that in any other industry we see, so there has been enormous change in how we do business and how customers wish us to do business. But we see the role of the branch as very much part of what we do. It is part of our distribution network. Electronic banking is clearly on the agenda and our customers clearly see it as part of what we provide, but I believe the branch network is here for a long, long time. Dynamics are certainly changing in the industry and in the products and services that we traditionally provided. We are no longer just a provider of loans and a taker of deposits. It has become far more complex than that, to the point where we call ourselves financial services—the word ‘bank’ does not necessarily appear—because that is the nature of the range of products and services we provide.

CHAIRMAN—I note your comment that 53 per cent of your network is in rural areas, servicing 31 per cent of your customer base. I will be the devil’s advocate for a minute and say that, in a sense, that is a slightly misleading figure. It reflects the fact that you have more branches and various business banking centres—agribusiness and so on—in country areas than you do in metro areas; but obviously the distances in metro areas are far smaller, so in terms of population numbers one branch in a metro area could service an area that one branch in a country area could not effectively service because of the distances involved.

Mr MacDonald—That is a good observation. Clearly distance and how far people have to travel is part of the equation we have to look at, but it is still a stark fact that 53 per cent of our physical network does service 31 per cent of customers, which does create a natural imbalance but not one that we are discomfited by.

Mr Dean—It also reinforces the importance of physical outlets as part of our distribution mix and I think it talks about our commitment to rural Australia in terms of our reach, so that is an appropriate measure of that reach.

CHAIRMAN—With the potential for modern technology—information technology, Internet and so on—to replace elements of face-to-face banking, particularly transactional activity, do you have any sort of regular liaison with Telstra and the other telecommunications service providers as to the adequacy of their communications facilities? A number of people have said to me, ‘It’s fine; we would be quite happy to do Internet banking, but our line is too slow or every now and again it drops out.’ What is the relationship between you and the telecommunications service providers to maintain the standards of that facility?

Mr MacDonald—We see ourselves as Telstra’s largest customer. We write a very large cheque to them every year for the services they provide and we treat them as a provider of services, so we naturally have some fairly tough discussions around the level of service we need. Jeremy, perhaps you could talk about the facts.

Mr Dean—The obligation that we have taken on ourselves in regard to Internet banking is to ensure that the application we provide customers is going to work on line speeds that we think are almost ubiquitous in Australia. So, when we are doing user acceptance testing and other testing of our applications, browsers and other pieces of technology, we make certain that we can cater for the kinds of line speeds that we know even rural and remote Australia are getting from Telstra.

CHAIRMAN—Another of the issues that we are examining is the potential for shared physical facilities, and there has been reference in your submission to giroPost and Australia Post facilities. What is your attitude to the potential for banks themselves actually sharing physical facilities? We have had advice from the ABA about some of the legislative impediments to that—trade practices issues and joint and several liability issues and so on. But apart from that, and if they could be solved by legislation, do you see other impediments to sharing facilities or are you sympathetic to that concept?

Mr MacDonald—The customer issue is a primary one from our point of view. We have difficulty accepting how it will actually work in reality. There are obviously going to be competitive pressures that come to bear and that really is foremost.

CHAIRMAN—So there is the potential for poaching then?

Mr MacDonald—Exactly. Where we would really like to see it is heading down the third-party provider. We believe Australia Post provides an excellent service. Our relationship with its

2,900-plus outlets expands our reach and provides a functionality that you would not find through a shared facility.

Mr O'Leary—One of the important distinctions for us is the transactional banking side and the relationship banking side. Our experience generally speaking with our network of branches and agencies and giroPost is that we have got very good reach for basic transactional services. As Ian went through in the opening statement, we are making a point of difference around the relationship model that we are trying to build, particularly in regional locations. Hence the advent of financial services centres which combine a broad range of financial services to build long-term relationships. The other aspect of that relationship model is the named relationship banker. So for our agribusiness customers, our farmers, the relationship occurs around the kitchen table with the agribusiness manager visiting that location. Similarly with our business banking managers going to those businesses and, at a higher level, the very deliberate approach to appoint a named personal banker for every person who has a home loan with us. It is important, in understanding no shared services models, to have regard to both that transactional capability and also the relationship focus that we are looking to drive as a point of differentiation.

CHAIRMAN—So your concept of shared facilities is facilities shared between the National Bank and another service provider rather than the National Bank and another bank?

Mr O'Leary—That is correct.

Senator WONG—I know it is a difficult issue, but can we go back to the closures last year? In your submission you acknowledged that you have learned lessons on how you implemented that. I have a number of questions about that. What was the notice period given to the particular branches involved, and the customers? It was suggested yesterday—and I do not know if this is accurate—that it was announced that there would be 56 closures in the one week and that the identification of the branches was a week later. Was that the time frame involved or was there a longer time frame around it?

Mr MacDonald—Senator, if I could take the second piece first, the identification happened a long time before it was announced. It was not a case of announcement and then—

Senator WONG—I meant the public announcement of the identification. I think that was what was suggested.

Mr MacDonald—No, we went through a long process of ascertaining the agencies to close and we gave each one a minimum of 12 weeks. The closures ran over a five-month period, so the shortest term was 12 weeks out to five months.

Senator WONG—If I can interrupt you, Mr MacDonald; when you said you gave them 12 weeks, that was notification to customers was it?

Mr MacDonald—Correct.

Senator WONG—Please go on.

Mr MacDonald—That is effectively the notice period. You were asking about the notice period; we are saying a minimum of 12 weeks, which is an industry agreed protocol, out to five months.

Senator WONG—Can you expand on some of the comments in your submission about what you think you did wrong and where you think you would do it better next time?

Mr MacDonald—There are two parts to it. The first part is the consultation. We have learned a lot from feedback from our own people and from the communities and our customers that a longer period of consultation may enable something to be done and at least forewarn people of what may be about to happen. That has got to be taken on board. The second piece is the notification. Whilst industry agrees to 12 weeks, that has to be seen as a minimum, and the longer that could be the better. I think there are two clear parts to that.

Senator WONG—Perhaps I could go into that in a bit more detail. The issue of consultation has been raised with us, obviously. Would you see that as a major issue for your bank? For example, if the ABA code had more specific rights of consumers to consultation and a commitment by the banks to a consultative process prior to the branch being closed, would that be a significant impediment to you?

Mr MacDonald—Each case is so different. To talk of consumer rights and start putting in place a process which is so regimented takes away, I think, from the individual case. What we see is that a trend starts to emerge early in terms of a decrease in activity through an outlet. The time for consultation with local communities around what is happening and what we can do to arrest it is when we start to realise that that trend is emerging. If it is a never-ending decline, the outcome becomes fairly inevitable. But if it is something we can talk through collectively with the communities about increasing volumes, increasing activity and getting community support for an outlet, that is a different scenario. That is why putting a time frame around it is so difficult—because each case stands alone.

Senator WONG—I do not think I suggested a time frame. I am asking whether or not you think there is some benefit in having commitments to consultation from the banks in relation to branch closures.

Mr MacDonald—We are certainly happy to commit to consultation. It is something we are taking on as a learning process. For me, making the commitment to it is very easy, because part of our philosophy when we look at assessing outlets is making sure that we are involving those involved earlier.

Mr Dean—Certainly with the three outlets for which we have put quite imaginative solutions in place with the community—Mingenew, Quambatook and Stanhope—we have learned lots of things about those consultative processes. The first is the length of time they take—we are still working on a couple of them. That has taught us something.

Senator WONG—What sorts of time frames are we talking about?

Mr Dean—We are talking from mid-2002 to the present, so that it is quite a lengthy process in which we have been engaged with the community. As Ian commented, we would be comfortable committing to our obligation to consult. But, given the completely different approaches taken in just those three communities, it would be very difficult to lock in a required process or set of requirements to apply to every community.

Senator WONG—Are you suggesting that from your perspective the optimum time for consultation is the point at which you start to identify, from your internal figures, that the branch is trending towards becoming unprofitable?

Mr O'Leary—I think that is right. One of the things that we have genuinely learned over the last four or five years—and I think the industry has learned generally—is that we have not done as good a job of communication and consultation as we need to. That is a given. In relation to the agencies, the lesson coming out of that is to consult early. The days of putting a group—like our 56 agency closures—in a bundle, even though it has some benefits in terms of openness and transparency about our intention, are over. We would be looking to go forward on a much more individual, case-by-case basis. It is very important in meeting customer needs that we are consulting regularly and that, if we do start to see trends in a particular location, we engage the community in relation to those trends. There might be all sorts of reasons associated with those trends unrelated to our branch in that place. But consultation—the principle of that and the length of time associated with it—is very important.

Senator WONG—We had some evidence yesterday about the profitability or unprofitability of rural and regional branches. You have gone through a pretty significant rationalisation process with the closures last year. I do not want you to indicate anything that is commercial-in-confidence, but are you able to give us a view about what percentage of those branches which do operate in rural and regional areas you would regard as profitable standing on their own two feet?

Mr MacDonald—It is virtually an impossible question to answer in a specific way by saying that X are profitable or unprofitable. We look at the relationship model that we provide to our customers and the ability to access our services. So you could be a customer of a branch which is in a very remote area and you would not access that point of representation physically but still could be a very profitable customer of theirs. So we would see a profit being generated from that branch without you physically using it. What we look at is the mix of transactional activity that goes through the outlet, the ability to generate sales from it, the ability to take deposits, the ability to complete customer needs in terms of full financial services. You can track a number of metrics which, over a period, show it increasing or decreasing. But we do not then get a bottom line profit and loss figure for each outlet. We look at it as a total picture.

Senator BRANDIS—Other banks do.

Senator WONG—Yes.

Senator BRANDIS—We were told by one of the other major banks—

Senator WONG—Cost it separately.

Senator BRANDIS—that do undertake this exercise, that 95 to 97 per cent of their rural and regional branches, to use his words, 'stood on their own two feet' financially. You do not keep the same figures but, as a matter of impression, would that be much the same for the National Bank?

Mr MacDonald—Again, I would have to ask Jeremy Dean to comment on that in specifics, but we do not look at those numbers. Rather than take a guess at what may be—

Senator WONG—Which numbers don’t you look at?

Mr MacDonald—The individual profitability of outlets.

Senator WONG—Any outlets?

Mr MacDonald—We take the whole mix of X number of customers and each accesses through different methods of getting into our organisation. The total transaction activity through our branches has dropped off from some 25 per cent to some nine per cent. So traffic through the branches is very small, yet the profitability of those branches can be high due to the various relationships we have and they can be serviced elsewhere. So we do not actually nail down a profitability per outlet.

Mr Dean—It is probably worth recapping that these are limited services agencies. That is not just a semantic internal term for us; it describes the fact that those are not full service branches and they do not carry a domiciled customer base. Therefore we do not assemble a profit and loss for those particular outlets. Given that the proposition of those outlets is face-to-face transactions, we look at the feasibility of the outlet in terms of things like cost per transaction, cost per customer served and a few measures like that.

The second point that I think it is valid to make about the tranche of changes that was made last year is that it was a one-off. We were approaching the beginning of another one of our three-year planning periods. It was clear, looking through our agency portfolio of 108 agency outlets, with the investment required in terms of premises and also, importantly, in terms of our foundations and CRM program to reticulate those outlets with the technology platform that we require in our network, that those outlets, in terms of the complex range of parameters that Ian was talking about—but, importantly, the number of customers who use the outlet and the number of transactions that it processes—it just was not feasible. You would be talking many hundreds if not thousands of dollars per customer to make that upgrade. So it was not a full service branch and it was not an attempt to eliminate that class of outlet. We still have 52 of them and the 52 of those agencies, together with the rest of our branch footprint in Australia, we are very satisfied with.

Senator WONG—So if we look at the criteria against which you assess the 56 closures, which appear at page 17 of your submission, there is actually nothing in there which is clear to me whereby the actual profitability of the branch itself was a criterion. What you are looking at is transaction volumes, sale volumes, growth prospects. Is it possible, given those criteria, that you may have made a decision, because of those business strategies that you have described, to close branches which technically, if you had costed what they earned for you and what they cost to run, direct and indirect costs, were profitable?

Mr MacDonald—That means you are taking the outlet itself in isolation.

Senator WONG—Correct.

Mr MacDonald—You could do that, but we do not see it as relevant.

Senator WONG—So you do not cost that at all?

Mr MacDonald—We could do it but it is not a relevant factor because, when you look at the relationship model that we have, we could have customers who are domiciled at an outlet who are not accessing that outlet and other customers who can use that facility and therefore could increase the cost of that facility by putting transactions through there on a daily basis but their profitability could be related to another outlet.

Senator WONG—So that is not a criterion you assess?

Mr MacDonald—No.

Senator BRANDIS—Mr MacDonald, I get the impression from the evidence you have just given—I may be wrong with this—that the National Australia Bank, in relation to the provision of services to rural and regional areas, takes a somewhat less strictly commercial approach than the other major banks. Do you think, as a generalisation, that is so?

Mr MacDonald—I would not like to think so; I would like to think that we remain very commercial. But, as I say, when we look at our relationship model we do not try to break it up into a series of 1,000 small companies that are part of this company; we look at it in the total relationship sense. It gives people the ability to use our physical outlets and our electronic outlets and understand our relationship banking platform.

Senator BRANDIS—If I heard you correctly, you said a little earlier this morning that 53 per cent of your physical branch facilities serve 31 per cent of your customer base—is that the figure?

Mr MacDonald—That is correct.

Senator BRANDIS—I take it that that disproportion is largely, if not exclusively, accounted for by the provision of services in regional and remote areas. Is that right?

Mr MacDonald—I beg your pardon—the 53 per cent?

Senator BRANDIS—Yes.

Mr MacDonald—Our definition of that is all of our branches outside the capital cities and metropolitan areas and Canberra.

Senator BRANDIS—To be the devil's advocate for a moment, a very ruthless management consultant might say to you, 'You're investing too much infrastructure in too small a throughput of custom; you should withdraw from that area of your business.' What is the basis of your decision not to? It is obviously partly commercial, but to what extent does your bank accept informally—and I use this expression in the loosest possible way—some kind of community service obligation in rural and regional areas?

Mr MacDonald—I would like to think that we take a totally balanced approach. We have four stakeholders. Customers are very important, our people are very important, naturally shareholders are very important and so is the community. We do have a community responsibility. That is not to say that we are a benevolent institution and are going to leave branches there simply because that is the right thing to do, but it is part of our total mix. As I say, we need that network and we know the network is needed, and we see that as being right.

Senator BRANDIS—One of the real points of tension in this inquiry is between those people who expect banks to provide a community service—for instance, we heard in Sydney a couple of days ago from a very well-meaning social scientist who told us that banks are there to augment the social capital of rural regions—and, at the other extreme, those who take a ruthlessly Darwinian laissez-faire sort of view that if banks are not optimising their return on capital they should not be doing business there. On that continuum—and obviously I am generalising—where do you put yourselves?

Senator WONG—What a question!

Mr MacDonald—That is a very good question. We do not shy away from social responsibility—not at all—and we certainly cannot shy away from shareholders' expectations, so we have to balance those. Looking at where we are as an organisation, cost-income ratios are often touted as being a measure of banks' efficiency and on that measure Australian banks rate amongst the most efficient in the world. We have a cost-income ratio in Australia of around 47 per cent. We have plans to improve that and continually improve it, but that ratio puts us up there with the best of our global competitors. So we are efficient. We do not see ourselves as having large numbers of branches holding us back. We believe that we have a very efficient network. Through Jeremy's team, we have spent about $250 million over the last two years putting in place 11,000 PCs—putting in what we call a foundations network—so we have a very good capability of getting electronic means to our people and our customers and improving our efficiencies through cleverness rather than just by cutting.

Mr Dean—Perhaps a point of differentiation is that, for the National, relationship is paramount and relationship profitability is paramount in how we structure our business. Having looked at the segments, the customers and the propositions we want to generate, we then look at the distribution and how we are going to deliver those things to our customers. That drives the shape of our distribution footprint, including our outlets. To take a different, perhaps more monoline, approach and try to reassemble P and Ls purely on an outlet basis is almost anathema to that approach and does not mean you are going to see the full yield and full picture that we can see at a relationship level.

Mr O'Leary—I do not have anything much to add there except that, on that spectrum that you mentioned, it is a balance and we have been in rural, regional and remote Australia for all of our life as an organisation. We remain committed to that area. We are working very hard in trying to get the balance right between transactional and relationship, and we are also trying to get the social obligation right.

One of the things that we did after the agency closures last year was to go back out to those regional locations. We were there for the whole month of September. We spoke to 7,000 of our staff. We spoke to groups of customers in each one of those locations. We spoke to community leaders in those locations. As part of that process, we even spoke to Stewart McArthur, who is a member of your committee. We are very committed to engaging in those communities not only because of a social obligation but also because it makes commercial sense. We need to understand customers and customer trends and, through that understanding, be better able to meet their needs.

Mr MacDonald—I have one final comment on that. Mike heads our agribusiness and we bank one in three farmers in this country. So we are seen to be the bank to the farming community or agribusiness. I think it goes hand in hand with our physical network that represents us there. That is a position we are fiercely proud of and wish to maintain.

Senator BRANDIS—What this seems to convey to me is that the National Australia Bank, a large organisation which has been going for a very long time in this country, has a culture in which issues other than purely bottom line economic issues are a value that you have regard to. Is that right?

Mr MacDonald—That is exactly correct.

Senator BRANDIS—Going on to something a little different: I am a bit interested in what you think of the role of the rural bank manager. We have heard some evidence from the customer's end, and also evidence from other banks before our inquiry, about the importance of having bank managers, and to a lesser extent bank staff, who are significant figures in their local communities and who understand, particularly in agricultural areas, the nature of the business.

It strikes me that being a bank manager in rural Australia, particularly with a lot of farming clients, is a very specialised or a very distinct subspecialisation of the banking business. Would you care to speak to that and, in particular, care to address the question of whether or not your bank has a policy of leaving the same personnel in place in rural towns and centres—or different centres in the same region—for prolonged periods to cement those relationships?

Mr MacDonald—I will ask Mike to come in shortly because, as I said, he heads our agri. We have a unique proposition in agribusiness, which is what has got us to the position we are in and which will, I think, sustain that position. The role of the bank manager has altered substantially in the last two decades. If you talk of 'just a bank branch', I think we all agree that they are a different proposition. I mentioned in my opening address the financial services centres, of which we have built 14 regionally. They are buildings that house a number of personal bank managers and business bank managers—in some cases the agribank managers—who are all part of the relationship model that we adhere to.

When you refer to the bush branch manager, they played an integral part and were a really strong part of the community. What we have done is tried to maintain that presence in the rural areas, but under a different name. So you do not have the branch manager who sits above the six tellers and the accountant as in the old model that we knew. We still have the branch with the tellers but the agrimanager, under Mike's team, visits that town, often lives in that area and is physically a part of that community.

Senator BRANDIS—I am mainly concerned not so much about the structure, but about the durability of those relationships with nominated individuals.

Mr MacDonald—Yes, and I think we have enhanced that a lot.

Senator BRANDIS—I can give you an anecdote of my own. A few years ago, I acted for the National Bank in a case about a rural business in Queensland. One of the things that came across loud and clear to me in that case was that the local National Bank manager was regarded by everybody in that particular community as a very experienced manager who knew the local business, who knew what sort of fertiliser you needed to put on which sort of crops and who had an intuitive understanding, almost as good as the farmers' understandings, of the local agricultural economy. It seems to me that relationships like that are highly valued and ought to be protected, but they are perhaps not necessarily the most economically efficient of relationships.

Mr MacDonald—That is a very fair comment in regard to many of our competitors, and I think there has been a diminishing of experience in rural Australia as a result of that. Mike will talk about the agri structure.

Mr Carroll—Let me go back to, say, 15 years ago when I joined the bank and when we used to have the old branch model and customers were managed from the local branch.

Senator MURRAY—As profit centres.

Mr Carroll—Yes, as profit centres. If you pick a town like Narromine in central-west New South Wales where we had some of the biggest and most sophisticated farming operations, we expected a branch manager of one of our smaller branches in the scheme of things to look after very sophisticated, large farms, the local hotel, the local council and a full range of services. In those days, the managers that would be appointed to those sorts of centres were typically quite junior. They were often first-up appointments. So there was a real mismatch between what the customer needed and the level of service that we provided.

We have over the last decade moved away and specialised. In Dubbo, we now have five agribusiness managers. All they do is look after farming and agricultural businesses. They are at various tiers. We have the tier 1 guys, who are our most experienced and most capable ones, down through to our less experienced tier 3 bankers. The tier 1 agribusiness manager will look after customers who might transact across a range of channels. They might go to the local branch at Narromine, they might transact National Online—our electronic banking system—or they might come into the Dubbo branch and transact. We have been able to align our customers' requirements at a level of sophistication of their needs with the skills of our bankers. The product set is increasing. We are offering things like wheat swaps that allow them to manage commodity price risk—so the level of skills that our bankers need have increased dramatically. To feed into that stream as well, we have recruited over the last two and a half years over 100 young people with farming backgrounds out of the agriculture colleges around Australia.

Senator BRANDIS—Is it a conscious policy to keep rural bankers in rural areas?

Mr Carroll—Yes. About 15 years ago, the average tenure in a branch was around 18 months. Amongst those agribusiness managers our average tenure now is just over three years. They work from 110 locations.

Mr MacDonald—We have created two specific agri credit centres—one in Albury-Wodonga and one in Toowoomba. All of the files above delegated authority go to each of those two regional areas. So we are looking at agri credit submissions in a different vein.

Mr Carroll—Strength for us is to put a lot of emphasis on local decision making authority. Our bankers have quite high lending authorities because we have the confidence in their skills to work with farmers.

Mr Lefevre—In the area of personal financial services, in particular home loans—those things near and dear to us—94,000 of our rural home loan customers now actually have a personal banker. That is a named individual with a direct telephone number that they can contact. Those personal bankers can direct traffic for those customers into other needs. So our approach is needs based. We do a full needs assessment, and we can direct them to planning services, to specialist services that they may not have had had they traditionally gone back into their rural branch. Some of the stories that have come out of that approach are wonderful. A letter was written recently to one of our personal bankers in the Albury financial services centre. That centre covers north-east Victoria. It was created in October 2002 and it has 14 of those relationship bankers that have the 94,000 home loan contacts around the country.

Dear Tim,

Matthew and I would like to sincerely thank you for the time and effort you have spent guiding us in the right direction, for our Home Loan and personal Loan choices.

Your enthusiasm and the position of interest with us are very much appreciated.

The comments and opinions you make to us don’t go unnoticed. With out your guides and support throughout the year, we couldn’t achieve what we have now.

We would also like to add the customer service at the National bank Echuca is one of the outstanding services around. Once again Matthew and I would like to express our thanks.

Senator WONG—Mr MacDonald, what percentage of your rural customers are serviced by a personal banker?

Mr MacDonald—There are 94,000 home loan customers.

Senator WONG—What percentage?

Mr Lefevre—Every home loan customer has a named financial manger.

Senator BRANDIS—The Australian rural economy is still to a large extent comprised of family farms. In relation to the question of security for advances, do you typically take as security the home, the arable land, the crop or stock, and the bill of sale over the plant and equipment or do you sometimes exclude the family home from the security?

Mr Carroll—Every one is different. In the situation where the family home is on a title of 1,000 acres, we would. If they have subdivided the home block off, then we probably would not need it.

Senator BRANDIS—Do you have a policy that, where you are sufficiently secured and where it is feasible not to take security over the family home, you don’t?

Mr Carroll—There is no need to.

Senator BRANDIS—Do you have a policy to that effect?

Mr Carroll—Every loan that is made is assessed on an individual basis. In some cases where there is no real property security, we have to look to security over livestock and that sort of thing.

Senator BRANDIS—It seems to me that a problem for any banker too is that one of the features of the rural economy and the culture of rural Australia is that you have farmers, and the farm is a business but it is also their home.

Mr Carroll—Absolutely.

Senator BRANDIS—I suspect some of them—and this is generalising terribly—do not tend to make that distinction very clearly but you as the lender perhaps need to.

Mr Carroll—Could you explain why we need to?

Senator BRANDIS—When you lend capital to businesspeople for business purposes and the loan is sufficiently secured by a bill of sale or security over specifically business related assets, you would not take a mortgage over their personal home. But I wonder if that principle is observed in relation to family farmers if what you are lending to the farmer for is capital for business purposes.

Mr Carroll—It raises some interesting ramifications—and it would be interesting to hear from groups such as the National Farmers Federation—because that would run the risk of the interest on any loans against that part of the farm not being tax deductible.

Mr MacDonald—I guess you could take that to the next level: most SMEs and small businesses that we bank are secured with the family home as well. So it becomes a necessary part of the finance cocktail.

CHAIRMAN—You have given us a very good outline of the services you provide to agribusiness customers and farmers in rural areas, but what about country town residents—individual customers? What sorts of dedicated services are for them in comparison with what you are offering in the agribusiness field?

Mr Carroll—Gordon can speak to individuals in country towns; I can speak about commercial businesses in country towns.

Mr Lefevre—The individuals in country towns to the extent that they have a home loan with us have a personal banking manager. They are given and afforded exactly the same personal service that we would afford any metropolitan borrower—that is, they have access directly to that personal banker's direct telephone number; the personal banker will make proactive calls, will assess their financial needs at the outset of setting up that home loan and will provide to them a series of overall life event needs that suit their particular requirements. That is a process that we follow throughout our metropolitan financial services centres and throughout our remote regional and rural centres that serve customers in those areas.

Mr Carroll—The commercial business side mirrors what we do in the agribusiness side, but it is a separate stream of bankers. They are business bankers rather than agricultural bankers, so they tend to have commerce degrees rather than agricultural degrees. They are managed as part of our overall business platform. They are mobile and will visit their customers at their place of work.

CHAIRMAN—Where you do not have branches, what is the situation for those who are simply depositors? I suppose transactional accounts—

Mr Carroll—When you talk about towns like Trangie and Narromine, there are a few commercial businesses there. Our business bankers from Dubbo would travel to see them there.

CHAIRMAN—What about non-businesspeople or employees?

Mr Lefevre—Our branch managers, of which there are near on 800 through the outlets we have, actually have a responsibility to manage the deposit relationships that we have with our deposit only customers. They treat those customers no differently to any other relationship. A deposit to us is as important as a loan. Those customers are afforded the same level of service and access as they would be afforded in a metropolitan area. They get the same service in a rural or regional branch.

Senator MURRAY—Professor Harper made much of the culture attached to banks and the mindset and the skill set that result from that—with an implication that it is very difficult to shift such institutions into new methods and operations. I was very interested that, without any prompting at all, it seemed to me that you automatically described yourself as a financial services institution, with the follow-on that banking is but a part of what you do. That would seem to me to be a sensible way to go in view of the trends that we see and that are explained to us. How is that put into effect within an organisation? How do you effect a change in the mindset and the skill set away from traditional banking roles as described by the professor—which you did not hear, but it was an interesting exposition—to being a multiproduct, multiservice financial institution type of arrangement?

Mr MacDonald—I will have a try at answering that. We have 44,000 employees in the group. To give it a generic label misrepresents what we are, because we are very complex. When you talk about the banking culture, yes, we have our culture at the National Australia Bank—a culture of the National in this country—but we also have the Bank of New Zealand, which I think sees a different culture, even though it is part of the same group, and four banks in the UK, in Northern Ireland, the Republic of Ireland, Scotland and England. Having worked in those entities, you see that the cultures are vastly different, though there are some similar strains in terms of the banking thought processes.

Two years ago our organisation acquired MLC, which was deemed to be a very good wealth management company in this country. We are now able to see the traditional National Bank of Australia culture and the traditional wealth management culture—and they are different. It is our role, as leaders in the organisation, to be able to take the best of those cultures—not create a new one, but create the best of the capability of those two entities—and represent that to our customer base.

Senator MURRAY—The implication I got from the professor was that it is difficult to generate profitable enterprises on a silo kind of basis, on an individual company, and that an alternative way in which you could make it truly profitable would be to create a conglomerate approach, where one organisation does everything that people need, from transactional banking all the way through to very sophisticated financial planning and business services—what we would describe broadly as financial services. His implication was that banks would be incapable of doing that. Therefore, if you take that to its extreme, you end up with a view that a physical premise in a country town would need to be multiproduct with a product sourced from different companies rather than single companies with a range. What you seem to be implying with your model is that you think you can go the conglomerate route—in other words, that one institution can in fact cover the scale—because you changed your culture so that you are financial services rather than banking oriented. That is where I have got to with my understanding.

Mr MacDonald—I think we would be taking it beyond where we currently are to expect that one individual country town could provide the full range of services—

Senator MURRAY—Not an individual—

Mr MacDonald—What we try to do through our relationship model is have our relationship managers, our relationship people, understand the network that sits behind them and where they can source Treasury type products, wealth management type products et cetera. So our relationship managers need to understand the full spectrum of the services and products that we have available and they need to be able to represent those to our customers. So the most important part of the role of the people in our organisation is to understand the customers' needs and then know how to come back into the organisation to access them.

Senator MURRAY—That is where I had got to as well. The implication was that, if you provide a physical presence, technology adds to that presence, so you have ideally, eventually, video links, and so in effect you do have a face-to-face interaction with somebody who is a very highly skilled person in an area—somebody who you could not afford to put on that site.

Mr Dean—That is a very important point. Earlier on we mentioned the investment that we have made in our foundations and our CRM program. The relationship model, together with a CRM platform, enables you to assemble that relationship at any one of our reach end points such that even one of the 52 limited service agencies that we have remaining have our CRM application in store and, in the event that during the transaction process our staff member identifies an opportunity for a customer in, say, wealth management, that platform enables them not to handle that with the customer, because that is not appropriate, but to route that needs identification to someone who can then contact that customer and follow up on it.

Mr Lefevre—Senator Murray, just to take that one step further, we have two major call centres—one in Sydney and one in Melbourne—and each of the operators in those call centres have the customer relationship management technology on their desktop. If a customer calls in from remote, the system immediately recognises their telephone number and the customer relationship management record comes up. The exchange that then takes place with that customer is outstanding because you actually understand their entire needs, you understand their entire banking relationship and the extended financial services relationship that they have with us. So when customers that we know interface and come into any of our particular distribution channels, the experience that they have with us is the same and is of an excellent standard wherever they go.

Senator MURRAY—I want to move on from there to try and understand what ‘face to face’ means to you. It seems to me that typically in remote locations—and I am talking about farms and stations—‘face to face’ does not often really mean face to face. Often the people have experience of, for example, a radio and television link for health care, as they do for the schooling of their kids, and I assume the same applies to other services. In your experience, does ‘face to face’ mean that physically you are there, or is it a video or radio or telephone link with people who are constants—in other words, they get to know them by voice?

Mr Carroll—In the agribusiness division there are people who look after those farms and stations. We run a fleet of 190 vehicles, and it does mean face to face. Our agribusiness managers would be out there with those farmers once a year with laptop computers running through their budgets. Often they would take a specialist with them—if there is a commodities prices risk management need that we can fulfil, we will take a specialist out there. We also have mobile phones with speakers so that they can conference in a specialist from another location.

Senator MURRAY—So you are telling me that from a business perspective you have established that technology and that an objective means of communication cannot substitute for a subjective judgmental personal relationship of a genuine face-to-face kind?

Mr Carroll—It can, but the relationship proposition is a point of differentiation for us and it is working for us.

Senator MURRAY—But you would not make a point of differentiation at what is a very high cost—telephone costs versus someone jumping in a vehicle and going out and sitting in someone’s kitchen—

Mr O’Leary—It is three legs to the stool: firstly, it is having an effective branch network, particularly in regional areas with financial service centres; secondly, it is having best practice electronic banking channels; and, thirdly, it is having a relationship model. It is bringing those three things together effectively which provides the customer experience that our customers are looking for.

Senator MURRAY—Let us briefly talk about needs analysis. Any marketer knows that you do a needs analysis and then discover that the behaviour of your customers can differ from what they told you they wanted. Let us use a practical example of a country town: if there is a two-branch town where one branch closes down and the second institution remains, you would assume that, if the big call is for a personal, face-to-face relationship, people would switch their business from the one branch to the other. What is the actual transference in a situation in which a two-branch town becomes a one-branch one? Do you know? Do you get 80 per cent move across? What happens?

Mr Carroll—Talking about the commercial and agribusiness relationships that would be managed in a location like that, they would in most cases be managed by a mobile banker who would be going out to call on them. The relationship with that banker, whether they are a specialist agribusiness banker or business banker, is normally strong enough to hold onto that relationship.

Senator MURRAY—What happens to the category of customer that Senator Chapman was referring to—the welfare cheque recipient, the employee or worker, or the small business person in a country town? What happens to them? Do they automatically switch from one branch to another because they want the face-to-face relationship?

Mr Dean—We cannot find a lot of evidence that suggests that, when the penultimate bank leaves, leaving one bank in town, that remaining bank gets a whole lot more business.

Senator MURRAY—Have you studied that, or have you never looked at it?

Mr Dean—We have no detailed studies but, certainly, looking at various patterns, there is no shape to the pattern that suggests that being the last bank in town means you are going to secure all the business.

Senator MURRAY—Looking at it from an economic theory basis, if a reduction in population results in the need for two branches diminishing but one branch possibly being profitable and surviving, intuitively you would just expect the business to flow in there. If there are two supermarkets and one goes, everybody goes to the remaining supermarket. Is that not what happens?

Mr O'Leary—One simple statistic is that, three years ago, 25 per cent of transactions went through branches. Today we are seeing that it is only eight per cent—

Senator MURRAY—But that is nationally. That is not necessarily country, is it?

Mr O'Leary—We are certainly seeing similar trends in country areas. We are seeing significant growth in Internet banking by rural people. We are seeing growth in the use of EFTPOS, telephone banking and Internet banking in rural areas which is not dissimilar to that in metropolitan areas.

Senator MURRAY—Is there a prospect emerging that physical premises will also become an indirect link? I will give you an example: cafes have now introduced Internet cafes, where you go and do your letter writing and correspondence all over the world. Is it likely that bank premises may in fact also become that sort of place?

Mr O'Leary—Wired cafes?

Senator MURRAY—No, so that people can come in. I mean, I am envisaging a situation where you might have two or three people there—even an agency. They plainly cannot cover the range of services but they will have the technology which will enable people to connect across. They already do that, for instance, when they have an ATM there, which cuts out the human being.

Mr MacDonald—We have looked at—and I guess it is fair to say toyed with—various options that could be put into our premises. Bank premises are costly. When you think they are open from 9.00-ish to 4.00-ish in the afternoon and are closed all weekend, they are closed for a lot longer than they are open, so you start to think through what would be a good way of using that fixed cost infrastructure to get a better return. The difficulty we have is the nature of the beast—we deal with cash. It requires a high level of security. We deal with customer information, which puts certain requirements on us to keep that secure as well. So the sharing of premises becomes very difficult.

You could look at the banks moving into selling Tattslotto tickets or whatever to actually expand it to get more customer traffic, but we cannot come up with any model which would say, ‘Let’s take it from a pure banking service capability to making it a suite of services which would both bring more people in and have you open for longer hours.’ If there is an answer to that, we would certainly like to be looking at it, but at this point in time, we cannot come up with one.

Mr Carroll—Returning to the issue about a town going from a two-branch town to a one-branch town and why there is not a wholesale switch across to the other branch, what is normally happening in that situation is that the residents of those towns are starting to go to larger regional centres, where there is greater choice and more competitive pricing, for a whole range of services. In the case of welfare, for example, is highly likely that people might be going to a larger regional centre for those needs. So it is quite easy for them to remain with the same bank but to do it at a larger centre. These towns are not isolated little communities.

Mr CIOBO—On that point about it going from a two-branch to a one-branch town, there has been evidence put forward to the committee about being able to have customer accounts transferred more easily between different banks. What are your thoughts on that?

Mr MacDonald—Do you have any specific impediments to them being transferred?

Mr CIOBO—What would be your approach in terms of getting some—

CHAIRMAN—The issue was raised that, when one bank leaves the town and a person wants to transfer to the remaining bank—and you have said that there is no evidence that that happens much—the fees for closing accounts and the fees for changing loans are an impediment to people moving to the last remaining bank in the town.

Mr MacDonald—I am not aware of any specific cost for closure. Anybody is entitled to close an account, so I am not so sure that there is any cost. The largest impost on any customer changing from one bank to another is mortgage stamp duty, so if governments were prepared to give up mortgage stamp duty it might make it a lot easier. The single biggest reason for people saying that they cannot shift from one bank to another is that the cost of stamp duty is going to be so large.

Senator WONG—But you do have account establishment fees.

Mr MacDonald—There are account establishment fees for new loans, but not for transactional accounts.

Senator WONG—You do not charge anything for a normal account?

Mr Lefevre—Not for a normal account.

CHAIRMAN—I think it was mortgages that were raised—the early termination of the mortgage.

Mr MacDonald—If it is a fixed rate facility and rates are currently lower than the rate for which the loan was taken out, there would be an economic cost for the closure of that loan, but there is no need to close a fixed rate loan under any circumstances—it can run to its natural maturity. The customer might want to shift across to that organisation, even if the branch of a particular bank could keep it there. It is the same with term deposits—they can run to their natural maturity. They would be costs being incurred at the choice of the customer. If my choice was to move across, stamp duty would be the biggest hindrance. I guess that is a matter for governments rather than for banks.

Mr CIOBO—If that is the evidence you lead, that is fine. I am interested in the National's Network Transformation Program.

Mr Dean—The National's Network Transformation Program has a very simple philosophy, and that is to meet customer needs and be where they are. So the Network Transformation Program has been around in the integrated financial service centres that we have talked about which incorporate advice, wealth management, some of our credit staff and the full range of banking service relationship managers. Network transformation is also about distribution in a wider sense. Again, focusing on relationships, focusing on segment propositions and then looking to distribution as one of the key parameters in the assembly of those propositions—not just right product, right customer, right price but right product, right price, right customer, right channel. So it is our segment strategies, our propositions strategies and our relationship strategies which in turn drive our distribution footprint, and that in turn drives a complete map and a complete consideration end to end of: 'How do our customers interact with us and what is the best way for that to happen?'

Mr CIOBO—I have one final question. A lot of the evidence that has been put forward deals with the day-to-day banking needs that people have. There has been some evidence put forward that, because of customer inertia, there is probably a greater perception of there being difficulties than there is in reality—although I have noticed in your submission on page 21 you talk about the types of services that are not available through, for example, giroPost. In those towns and in those regional centres where your point of presence is giroPost—it is not an ATM, for example, and it is not a branch or something like that—it would seem to me reasonable that customers in those situations would be fairly limited in the alternatives that would be available to them. Given that I can go to an ATM, do an account balance inquiry and those kinds of things and get charged at the rate applicable to an ATM, if I do not have access to that then I am forced to go to an Australia Post outlet which charges an over-the-counter transaction fee. Is that right?

Mr Dean—I think is important to say that over half of our rural agencies that were closed were under a fee regime where customers were not paying fees. When we made the change from the face-to-face transactions under our own banner to using Australia Post, we preserved that fee-free status for those customers.

Mr CIOBO—That is good.

Mr Dean—It is also important to stress that toll-free telephone banking is available throughout the whole of Australia, Internet banking is available throughout the whole of

Australia and our mobile lending force is available to go anywhere in Australia, so there really is not that much detriment in terms of service access to a customer who is in an environment where our representation is through Australia Post.

Mr CIOBO—All right, thank you.

CHAIRMAN—What was different in your perception of the Victorian towns of Koroit and Mortlake, where the National Bank closed branches, and, subsequently, the ANZ Bank, which opened a branch in Koroit in July last year. What was different about your perception of that region and ANZ's perception? You were closing the branch and they were prepared to come in and fill the vacuum and open a branch.

Mr MacDonald—You might have to ask the ANZ Bank for their reasons for opening the branch. As Tim pointed out, when we closed the 56 branches we announced a very transparent program with, we thought, very robust reasons for why were taking that forward. Koroit fell within that ambit. We were actually visited by some local representatives of Koroit and we spoke it through with them. I do know that they crossed the road shortly after that meeting and had a commitment from another organisation to open there. But you have to ask the ANZ why.

CHAIRMAN—Perhaps if I quote from their submission, it might help a little bit. It reads:

> ANZ opened a new branch in the south-west Victorian town of Koroit in July this year. This decision was in response to a unique set of circumstances including clear and demonstrable community support for the branch (for example the local Shire Council moving its banking to ANZ) and the National Australia Bank decision to close branches in Koroit and Mortlake which helped ANZ attain a critical mass of customers. These factors improved the business case for a branch, which would not have been considered viable on a commercial basis previously.

Mr Carroll—The shire council did not move their business from us—their business was with an interstate bank.

CHAIRMAN—And you did not have discussions with them to see if you could get their business before you closed?

Mr Carroll—In that location, Koroit is not much more than outer suburb of Warrnambool, and we believe that there is very adequate transactional banking services in that centre.

CHAIRMAN—Okay.

Mr MacDonald—Sometimes our competitors will enter into arrangements which we find hard to understand.

Senator WONG—Wasn't East Warrnambool another one of the 56 branches that were closed?

Mr Carroll—We have a major presence in Warrnambool. We have a business banking centre and large bank branch in the main street.

Senator WONG—I appreciate that.

Mr O’Leary—It may have been a smaller agency in Warrnambool West or Warrnambool East, I think, that was numbered amongst those.

Senator WONG—Right. So that plus Koroit were closed.

Mr O’Leary—But we remain robustly presented in Warrnambool.

Senator WONG—‘Robustly’—that is very good! Thank you.

Mr Carroll—It is a major centre.

Mr HUNT—I have three questions. They trace from the present situation to some of the possible options for the future. The background to this is that, when you had your closures of the branches, I lost two branches in my area of responsibility, one in San Remo, one in Koo Wee Rup. In fact, those two closures were one of the many factors which helped to bring this inquiry about.

The first question is in relation to the lead time for closure. We basically received a telephone call the day it leaked out into the press that the closures were coming. It was a polite call from the National Australia Bank to inform me. I cannot remember the exact period of time, but it was a very short period of time between the announcement and the closures. So the first question is: is it possible to stage the process of closure over a longer period of time? I realise that means that you are more likely to be exposed to community response, but you also have a community responsibility. Is it possible to stage it over a 12- or 18-month period and what are the barriers to doing that, to let people know in advance, to give a community time, so there is no gap between the closure of one service and the opening of another? A classic example is in San Remo. They are now in negotiations with the Bank of Bendigo to open a community bank, but there is a hiatus.

Mr O’Leary—We covered some of this previously, but certainly one of the lessons coming out of the agency closures has been to look at consultative processes and notice periods. We would be comfortable going forward in terms of consulting early. The ABA protocols are a bare minimum and we would certainly look to go beyond those on a case-by-case basis.

Mr HUNT—The second question is, if you do head down that track, what is the position in relation to shared premises? Are there any circumstances under which would you countenance shared premises?

Mr Dean—Our view on that, as covered before, is that we make a clear distinction between transaction interactions with our customers and relationship interactions with our customers. We feel that transaction interactions are catered for well by the arm’s length agency arrangement that Australia Post offers and that sharing for premises and staff and such like for relationship transactions or interactions is inappropriate for a range of commercial, in addition to some regulatory, issues.

Mr HUNT—That leads me to the third question, and that is in relation to the future of direct relations with customers. One of the points which the committee has been exploring is the notion that customers benefit from face-to-face human interaction, particularly in relation to financial advice and what you call the relational element of the bank’s work. What is the future possibility in relation to videoconferencing—particularly the high end future of the autoteller machines or of the regional centres—as a means of providing that where you do not have a physical presence? What plans do you have?

Mr Dean—In terms of a distribution strategy and with the value that we place on those relationship interactions, we are not considering any kind of remote video feed. What we do want to do is our relationship managers will go to the customer. So if a piece of wealth management advice is required, the adviser will go to the customer; if it is lending that is required, the lender will go to the customer. We think that is probably superior to any kind of remote management of those transactions. They are just too important and they are just too core to the relationship we have with those customers.

Mr Carroll—I think in the regulatory environment that we are in and with the Financial Services Reform Act it would be dangerous not to do that face to face.

Senator MURRAY—Behind this question is the cost and technology issue. If videoconferencing becomes cheap and the technology makes it widely available, there have to be circumstances where for somebody in a station—for instance, far in the central north of Western Australia—to videoconference with a specialist in Melbourne would make sense. Are you closed minded about it?

Mr MacDonald—Certainly not, but our current model sees us with a network which is in the marketplace and we touch all parts of Australia physically. At some point in the future there may be some technological change—videoconferencing is available—but we believe that to get our customers' trust and to really have a proper relationship they need to know who that person is, they need to touch them. Once that relationship is established, you can then interact by phone, email or videoconferencing. But I still think that that face-to-face interaction will continue.

Mr HUNT—The theory sounds good.

Mr MacDonald—It has actually worked in practice.

Mr HUNT—The problem is that one of the complaints that we have received over and over again in the written and oral evidence from rural communities is that they have a lack of direct access to people, that it is an occasional flow. That is where the gap is between what you are proposing and the reality as the communities perceive it.

Mr MacDonald—I think across the industry that is a fairly valid proposition, but we have grown our agribusiness from a 20 per cent to a 30 per cent market share in the last few years with a model which is clearly working, and it is servicing rural Australia. On the personal side, with our relationship model our growth is in excess of the system with a rate that we are very comfortable with, and I think that is to do with our model. I guess as a generic comment it makes sense, but we are seeing that we are providing our people to our customers face to face in the marketplace.

Mr HUNT—So what you are saying is that, relative to your competitors in the market, you have placed much more emphasis on the mobile bank officers?

Mr MacDonald—As I mentioned earlier, the concept of the old branch with a branch manager and a series of staff as we used to know them has altered substantially. But we still have a relationship model, which means that we have face-to-face bankers in front of our customers at all levels in the organisation, and that is the backbone of what we do.

Mr HUNT—You talked about the security of video. I would just note for your record that it is highly acceptable for courts and for parliamentary committees to take evidence on video. In terms of your building, that is well established as a means of communication for highly sensitive material.

Senator MURRAY—And medical.

Mr Dean—The point there, though, is that once the channel becomes more widely used, and if customers are demanding that we interact with them across that channel, we will be there.

Mr HUNT—The last thing I want to do is discourage direct face-to-face contact. But there is certainly a perception out there in the rural communities that we have consulted that there is a significant gap between what they would wish to have in terms of human interaction and what is available. I am just saying that, where there is that gap, this may be a channel.

CHAIRMAN—We have gone well over time, which I think reflects the interest that we have had—

Mr MacDonald—Sorry.

CHAIRMAN—No, don’t be sorry—it is our responsibility. What I was going to say is that it reflects the interest the members of the committee have had in your evidence to us. We thank you very much for the contribution that you have made to the inquiry.

[11.34 a.m.]

CASSIDY, Mr Brian, Chief Executive Officer, Australian Competition and Consumer Commission

PALISI, Mr Paul, Acting General Manager, Adjudication, Australian Competition and Consumer Commission

PEARSON, Mr Mark, General Manager, Mergers and Asset Sales, Australian Competition and Consumer Commission

CHAIRMAN—Welcome. The committee prefers that all evidence be given in public but, should you at any time wish to give part of your evidence in private, you may request that of the committee and we will consider taking your evidence in camera. We do not have a written submission from the ACCC. I invite you to make an opening statement, after which we will proceed to questions.

Mr Cassidy—Mr Chairman, we do not have an opening statement. We understand that, in the course of your hearings, there have been a few issues raised that the committee wants to raise with us, so we are here to be of whatever assistance we can.

CHAIRMAN—One of the significant issues that has been raised with us that is relevant to the ACCC is the issue of shared facilities, the capacity of banks to share facilities, the implications of the trade practices legislation and the attitude of the ACCC to that. Our understanding is that you have a negative attitude to it. Can you enlighten us on that issue at the outset?

Mr Cassidy—In a sense it is a little difficult to say precisely what our attitude would be to shared banking facilities since the sort of proposal that has been referred to, I think by the ABA in their submission to you, is fairly light on detail. It is not necessarily the case that we would have a problem with a shared banking facility. It would depend very much on just what form that facility took. If you think of a spectrum, at one end you could have a shared banking facility which involved the use of common premises and common staff but the products and the terms and conditions that were being offered varied from one bank to another. That is probably at the end of the spectrum where we would be less likely to have problems. At the other end of the spectrum, if it was a case of not only shared premises and shared staff but also some proposition that, to make it easier, there would be some agreed similarity between services being offered and on what terms and conditions, that is the end of the spectrum where we probably would start to have a few problems.

I do not think it could be said that shared banking would automatically run into problems with us. There would really be an issue of what the particular characteristics of the shared banking proposal were. We would clearly want to have a look at it in the sense that, as you would readily appreciate, any proposal in an industry like banking that brought the banks together in some sense would be something that we would need to have a look at. But, as I said, I certainly would not operate on the assumption that any shared banking proposal is necessarily going to cause problems as far as we are concerned.

CHAIRMAN—You indicated that the issue of standardisation of products would attract your attention. Would you acknowledge that if you were going to have a shared banking facility with common staff, and perhaps to minimise the likelihood of poaching customers from one bank to the other, in practical terms there would be a need for some significant degree of standardisation of products?

Mr Cassidy—It depends. If you look at the banking market at the moment there is a differentiation of products between the banks. They differentiate in the sort of service offered, the price or the interest rate for that service and the associated terms and conditions that go with it. Whether a shared banking facility would cause problems with the poaching of customers any more than having different bank branches on opposite corners offering differentiated products once you get into a city—whether the problems would be greater in one situation than it would in the other is something that would have be looked at.

CHAIRMAN—Another issue raised with the representatives of the National Australia Bank a few moments ago—you might have heard me raise it—is about the portability of accounts between banks. This issue was particularly raised with us by CUSCAL, a representative of the credit unions. They argued that constraints on the ease with which consumers can transfer funds between financial institutions act as a brake on competition and limit the capacity for nonbank approved deposit institutions such as credit unions to move into new markets. We asked ASIC about this issue and, after consulting with CUSCAL, they informed us that their concerns particularly relate to the portability of deposit and credit products between institutions and the problems encountered by consumers in attempting to do so. ASIC advised us that this does not come under their bailiwick, but it probably does come under the ACCC’s bailiwick. Can you respond to that issue?

Mr Cassidy—It is something that has arisen mainly in the context of us looking at some recent bank mergers, so Mr Pearson will respond.

Mr Pearson—In terms of what we consider in assessing whether a merger or a joint venture is likely to substantially lessen competition, under the barriers to entry we look at what we refer to as switching costs—transaction costs. I think that is part of what you are referring to in the issue of portability. There has not been a lot of actual econometric work done, particularly in this country, but we have generally accepted that switching costs are relatively high. This is based partly on anecdotal evidence and partly on confidential information regarding churn accounts and estimated churning in terms of a couple of hypothetical mergers. A lot of that is based on not so much the pure dollar value but the time and effort—what we refer to as customer inertia. We have found that many transaction accounts, credit accounts and so forth, particularly those used by small business, have a bundle of products. Some of those products may be separated out—for example in home loans, credit cards to some extent but particularly in home loans, and personal lending products—but other products are bundled in, so it becomes very difficult for customers to compare banks. Many customers take a view, or it appears that they take a view, that the time and the effort involved is not worth it.

A lot of that is anecdotal, but we have two pieces of what we would call evidence. There is a confidential piece of evidence which was provided by a major bank. They estimated in an acquisition that, over a two-year period, they would maintain something like, I think, a bit over 80 or 85 per cent of the customers of the target bank. That was despite the fact that there would have been changes in the fee structure, there potentially would even have been some increases in some fees and it was a fairly emotive matter that would have raised a lot of issues with the target bank’s customers. The other piece of evidence came from a bank that was entering the market. It did some studies and determined that the willingness of customers to move was extremely low. As I recall, the bank did not put any actual dollar figures or values on it, but it said that its market surveys had shown that it would be extremely difficult. That is about as far as we have gone in terms of switching costs. There is some evidence that they are falling a little, but I would not take that to any great extreme. They were fairly high to begin with. There is a little evidence that people are willing to unbundle the package but, in general, there is still fairly strong evidence of bundling.

Senator MURRAY—This issue is not about customers having a willingness to move but the fact that they have to move. If your two branches are reduced to one and you need to move, surely the portability of your basic accounts systems, your basic financial services such as your mortgage loan for your home, your basic debit facilities, your stop orders and that sort of thing is a big issue. It is what people have to do rather than what they would want to do if they had a choice. Who wants to move institutions? It is an annoyance. But, if you have to, surely it should be made as easy as possible. That is where your view of that side of it would help us.

Mr Cassidy—In a sense, we would agree with the proposition you are putting. The way we have come at it is that, particularly in the context of bank mergers and joint ventures, we have propositions put to us like: ‘If after a merger with a joint venture we seek to increase our fees, interest rates or whatever, there is a limit to how far we can do that because our customers will up and head off somewhere else.’ We are fairly sceptical of those sorts of claims, although that is based on what Mr Pearson concedes is fairly limited evidence. The reverse of that coin is that, if someone is in a situation where there are two banks in a country town and one of them closes, the customers of the bank that has closed have to move across to the other bank. Unless some change is made, that will probably involve a reasonable cost for the customers that are forced to move from one bank to another.

Senator MURRAY—If you liken it to what has happened in the superannuation industry. Many, though not all, superannuation institutions now have a really easy system for shifting from one to another. There is still the fee issue, but some are very good on the fee thing because they have an arrangement with other institutions: ‘We’ll do it for you and you do it for us, and we’ll wear a lot of the potential fee problems.’ It seems to me that there has been a rapid improvement in portability—providing you know how to access it; that is qualified as much as possible—between superannuation institutions over the last five to seven years. I do not hear the same reports about moving between banks. For instance, take the simple issue of the 100-point system. I cannot understand why, if you have passed a 100-point system in one bank, you cannot simply move your account to another bank and have that 100-point system accepted.

Mr Cassidy—We have a lot of sympathy for what are you saying. Indeed, we have a lot of sympathy for it from the point of view of a broader competition aspect in terms of the mobility of customers between banks. On the other hand, we have not come across anything in terms of the transaction or switching costs which runs foul of the legislation we are responsible for. So, while it is one of those things which we would certainly like to see happen, it is not something that comes within our direct purview.

Mr HUNT—Following on with that briefly, the context in particular in which we are looking at this was, for example, where there is the rationalisation of a number of banks within a particular township—most notably where you are decreasing from two banks to one bank—people lose the direct relationship with their bank but there are effective impediments to their shifting to the remaining bank, and those impediments are time and cost and the process of unbundling their product. So the bind that ordinary bank customers find themselves in—if they are with the National Australia Bank in Koo Wee Rup, that is closed and there is only the ANZ left—is that they have no banking presence in the town but they cannot really shift to the other one because they are complex products with the initial one, with the National Australia Bank. So they lose the face-to-face contact, but they have to effectively maintain their relationship with the original bank—in this case, the National Australia Bank.

In that situation, is there more that can be done? Can we examine the possibility of a situation where someone has effectively taken away the options for a customer by removing the only bank from their presence, and then, at some certain set distance, couldn't there be an obligation imposed on them in that situation to transfer the contracts within a certain period to place portability requirements on them, to carry out actions where they have removed the presence from the customer without a certain set of fees, so that that is not so much a penalty but a cost of the decision that they make, that they have to wear it rather than the customer having to wear the costs of the bank's decision? Is there something that can be done there to help the customers to make a free and easy transition to the remaining supplier in their town?

Mr Cassidy—As I say, we certainly have a fair amount of sympathy for the proposition you are putting.

Mr HUNT—I am looking at what sort of legislation you would need in order to do that; so let us change the parameter.

Mr Cassidy—Yes. It is really something that is only fairly, you might say distantly, related to the Trade Practices Act provisions. I cannot really think of an existing set of provisions within the Trade Practices Act that you could modify in some way to cover that sort of situation. It would almost be a whole new provision that you would be talking about.

Mr HUNT—Would you be able perhaps to come back on notice and just provide us with some advice on what you would need to do in terms of legislative changes, whether through the TPA or through another legislative instrument, to force banks which are closing branches to dramatically improve the assistance they offer to customers to transfer to the remaining bank?

Mr Cassidy—Okay; let me think about that.

CHAIRMAN—While we are on the issue of competition, I might broaden it a bit. The proposed mergers of Westpac and the Bank of Melbourne and the Commonwealth Bank and Colonial have opened debate on the state of competition in the retail banking market, especially in rural and regional areas. Can you give us an overview of competition at the retail banking level as far as regional, rural and remote areas are concerned?

Mr Pearson—Arising out of both those matters, the Bank of Melbourne and Westpac, there was some concern about rural and regional Australia, but the Bank of Melbourne was basically a Melbourne based bank. So the impact on rural and regional Australia—or Victoria of course—was a lot less than, for example, when we looked at the Commonwealth Colonial. With the Commonwealth Colonial there was some impact in Tasmania. There were issues with rural and regional New South Wales. And I think it is no secret that the existence of St George Bank—it is a fairly strong state based and regional bank in New South Wales—lessened the impact.

We also managed to get undertakings and I think there were also some undertakings provided directly to the government. The Commonwealth Colonial, we thought, would have an impact on rural banking more in terms of small to medium-sized enterprises. That was one of the areas with which we had a lot of concern. We tried to overcome that by putting in place a monitoring and reporting system, by encouraging putting in place a process—in fact, we had it in both those mergers where there was access to ATM and EFTPOS. We know that some of that access was taken up. A number of financial institutions, credit unions and banks, have taken up access particularly to the EFTPOS. None, as we are aware, is in the Commonwealth colonial matter through the Commonwealth Bank. Nobody that we are aware of has actually taken up offers of access to assistance in the technical back room type of issues.

With the Bank of Melbourne, as I recall, there were two banks and I think one credit union that actually took up offers of access. We thought that, in trying to put in place a quasi-structural undertaking, we would at least encourage contestability in those rural regions. I think there was a Queensland bank, a South Australian bank and a number of others who have taken that up.

Senator WONG—Perhaps I can go back to the issue of portability of products in the context of bank closures that Senator Murray and Mr Hunt were asking you about. In terms of the ABA's code, which has recently been announced, was the ACCC consulted by the banks on the content of that code of practice?

Mr Cassidy—I am not aware that we were. I am looking at my colleagues, I am afraid.

Mr Pearson—Nobody came from the mergers area.

Mr Cassidy—No. Most likely that would have involved Mr Palisi's area, so no.

Senator WONG—So there was no discussion with you about this code of practice, which is supposed to be the solution to external regulation?

Mr Cassidy—No. This is one of these areas where—I understand you had ASIC in earlier—we are playing handball with one another. In a sense, we have a peripheral sort of involvement in the provision of financial services. In fact, it has become more so since we are no longer responsible for consumer protection issues in relation to financial services. So they would be discussions which I think the ABA would more likely have with ASIC than with the ACCC.

Senator BRANDIS—There was some suggestion when we had evidence from APRA two days ago—I think coming from Senator Murray—that if not APRA then another regulator, perhaps the ACCC, ought to have some involvement or oversight role in relation to branch closures and the conduct of banks at the time of, and immediately after, branch closures. Do you regard the ACCC as the responsible regulator? Do you think you have the statutory power or obligation to be involved in that?

Mr Cassidy—I certainly do not think we do at the moment. If there was a mind to have that sort of requirement as new legislation or a new legislative provision, I think there would be an issue probably between us and ASIC. It has probably got dimensions of both. In a way, that sort of provision would probably be getting more, if you like, to the consumer protection end of the spectrum than to the competition end, although it would clearly be relevant to both.

Senator BRANDIS—But I suppose there are also issues like, for example, whether or not a decision by a bank to close a branch would be regarded as conduct in the market.

Mr Cassidy—That is true. Indeed, obviously bank closure decisions, come under the general heading of commercial decisions being made by the banks.

Senator BRANDIS—But not all commercial decisions are decisions in trade or commerce or market conduct.

Mr Cassidy—That is true.

Senator BRANDIS—While I have the call, I suppose I should give you the opportunity to respond to evidence given. I do not know whether this has been reported in the financial press or whether you have reviewed the transcript of yesterday’s proceedings but one of our witnesses suggested rather grandly that there was plenty of evidence of collusive conduct among the four big banks, and the ACCC had a wealth of evidence of this and you had not done anything about it—I am paraphrasing. Would you care to tell the committee, just quickly, what examinations and investigations the ACCC has conducted into the suggestion of collusive practices among major banks and what the conclusions of any such investigations have been?

Mr Cassidy—I can certainly say we do not have a wealth of evidence of collusion between the banks. If we did, we would have done something about it. From time to time we have complaints, and this is not unusual, I must say, in the financial sector—it happens a lot in relation to petrol as well. When you have what seem to be similar movements in interest rates or charges and it all happens in a fairly short space of time, we get complaints that there has been some sort of contact between the banks in terms of deciding what their change was going to be. We have had occasion to look into some of those accusations but I must say we have never found any basis for them.

We have, as you would be aware, been active in what you might call the payments system, particularly credit cards and to a lesser extent EFTPOS and ATMs. We have also been having a fairly close look at the BPay system to see whether it raised some of the same sorts of issues that came up in relation to credit cards. Indeed, we have just announced that we have concluded our BPay investigation and decided, on the advice of senior counsel, that there is nothing in the BPay arrangements that is in breach of the Trade Practices Act. As I said, we have looked over a period of time into various aspects of the banking system and the way the banks work. It is not the case that there is a mountain of evidence of collusive behaviour.

Senator MURRAY—Returning to the advice from Gilbert and Tobin to the ABA concerning regulatory impediments to the introduction of shared banking facilities, if I heard you correctly, Mr Cassidy, you remarked that was not an in-depth analysis of the issue. I wonder if you might consider giving us a response on notice to those views, because one of the things we will need to consider as a committee is whether we recommend changes to law or regulation to enable more opportunities for either new entrants or existing players to be more flexible in the provision of facilities in circumstances where shared facilities, either on a multiproduct or multi-agency or multi-institution basis may be the only way to make it work.

It is not for us to decide whether that is the model that should be pursued but it is the obligation of policy makers to enable those opportunities to be progressed. If there are impediments, such as they outline, it would be useful to have your view of them and on whether is should be simply an exemption or a discretionary power you need in any respect or whether it should actually be a law change. If you can give some considered thought to it and advise the committee that would be helpful.

Mr Cassidy—We could do that. What I was saying was that it is a bit hard to respond specifically because there is not sufficient detail in the ABA submission on just what the features of a shared banking arrangement might be. I was cautioning you against what I think is a view at least in some parts of the ABA submission of, ‘Oh, look: whatever it was, we would have a problem.’ Whether we would have a problem or not would depend on the actual characteristics or features.

Also, of course, even if there is a problem in relation to the Trade Practices Act—and this is also covered in the ABA submission—the possibility of authorisation is available under the act, notwithstanding the fact that there may be anticompetitive aspects to the shared banking arrangement if they are offsetting other benefits, and the other benefits can be drawn quite widely.

Senator MURRAY—One criticism of the authorisation process is that it can take a great deal of time. There may be legitimate reasons for that, but the fact is that in circumstances where there is a closure or loss of an essential service to a community you need a fast-track process. So perhaps you could look at the process side of it as well as the law side of it.

Mr Cassidy—We normally aim to get authorisations done within about six months. There are certain processes we have to go through which are important because, when you think about it, what we are doing is giving an exemption to conduct which is basically unlawful under the terms of the act, and that is not something you do lightly. The process is very transparent and open. It provides opportunity for interested parties to have their say, which we think is a very important part of the process. That said, the speed with which we are able to deal with authorisations depends, importantly, on the speed with which the applicant deals with the issues. Some of the authorisations we have had, including at least one that is mentioned in the ABA submission, have taken quite a period of time. We have had periods of anything up to nine months while we have had to wait for the applicant to come back to us with information in response to issues that have been raised in, say, a public conference that has been called. So the timing is partly in the hands of the applicant.

Senator MURRAY—You would see the connection, then, between your remarks and Senator Wong’s question. Senator Wong was referring to the bank code of conduct charter, which proposes a 12-week notice period, but in circumstances when somebody sees that and wants to initiate an alternative and the authorisation process varies between 16 weeks, which is four months, and 36 weeks, which is nine months, plainly the 12 weeks would not work. So I think we need to connect the two—what the bank is doing with the community and the time period during which alternatives which have to be viewed by the regulator can be dealt with.

Mr Cassidy—Sure. In fact in relation to mergers, where timing is often an issue, the authorisation process is truncated from the normal authorisation process; so that is one example where, in recognition of timing considerations, the authorisation process as set out in the act is somewhat shorter than it is normally.

Mr Palisi—You would not necessarily need to lodge an authorisation application every time a bank branch closed. You could imagine a system being developed on a broader basis and that system kicking in every time a bank branch closed, so you would have the authorisation already—

Senator MURRAY—You would establish the criteria.

Mr Palisi—Yes, you would establish how you are going to do it and then, over the period of authorisation when bank branches close, the system kicks in and you thereby avoid some of the timing problems you have been referring to.

Senator MURRAY—That makes sense. The other area I want to explore briefly with you is the relationship between APRA, ASIC and ACCC. The proposition is simply this: the provision of financial services, including banking services, are an essential service and that when they are withdrawn it has as much effect on the community as the withdrawal of any other essential service such as transport or communications or those sorts of things. Therefore, a regulator needs to take an active interest in those matters. APRA have clearly said to us in terms of both the intent and the practice of law that is not their place, and I agree with them. I think their place is to focus on the prudential side, which leaves ASIC and ACCC as the candidates. We explored this issue with Mr Johnston from ASIC yesterday and he indicated that it is your job.

Senator BRANDIS—He said, ‘It was not my job but it might be the ACCC’s job,’ which is the sort of general handball we have come to see from regulators over the years.

Senator MURRAY—You are the last ones standing.

Mr Cassidy—We are at the end of the queue.

Senator MURRAY—The question is how does the committee resolve what recommendations it makes a) to whether there is a job; b) how the job should be described; and c) who should do it. In those terms, once again it may be a question you would like to give more consideration to rather than an off-the-cuff answer at a committee hearing. If you want to take it on notice and come back to us, that would be fine. But that is an issue, because when we have explored the issue with all three we find there is a kind of vacuum in who has oversight and interest.

Mr Cassidy—I can certainly see what you are saying and I agree with you that it is not a role for APRA. It clearly is either us or ASIC. Without wanting to look as though I am playing handball, it is not immediately obvious that it falls to one or the other. In a moment, it is fair enough to say that the ACCC’s responsibilities in relation to the financial system are basically ones to do with market conduct whereas ASIC’s responsibilities are to do with consumer protection and also unconscionable conduct. What our act with the financial sector is about is what is going on in the market and whether the banks are getting together and agreeing on certain things they should not be agreeing to and so forth, whereas ASIC is more responsible for the bank-customer interface. With those two broad divisions of responsibility, where the particular sort of legislation that you might have in mind falls goes to the issue of whether it is about individual customer-bank relationships—which is probably now ASIC's territory—or is it more general market conduct and behaviour which is probably our territory as far as the banking system is concerned.

Senator MURRAY—There are a number of responsibilities in your act which have a slightly analogous situation here. For instance, the mandated franchise code where through a consultation between franchisees and franchisors you have developed a code of conduct, which they all agree with and which is mandated. Effectively it manages the relationship between those two but also has spin-offs in terms of relationships with their customers. The other analogy that might be in that direction is telecommunications; the way in which Telstra has specific provisions within your act, it is measured by the Communications Authority and you have oversight of it. Through the Chair, will you consider whether you should give a bit more thought on this issue of a) what needs to be done and b) who needs to do it and in what form, and whether that needs a law change or merely ministerial direction accompanied by the appropriate allocation of resources.

CHAIRMAN—I thank each of you for appearing before the committee, your answers to our questions and your contribution to our investigations.

[12.18 p.m.]

GILLETT, Mr Gregory (Greg) Douglas, Chief General Manager, Retail, Bendigo Bank

CHAIRMAN—Welcome. The committee prefers that all evidence be given in public but, if at any time you wish to give any part of your evidence in private, you may request that of the committee and we will consider a request to move in camera. We have before us your written submission numbered 53. Are there any alterations or additions that you wish to make to the written submission?

Mr Gillett—No.

CHAIRMAN—I now invite you to make an opening statement, at the conclusion of which we will probably have some questions.

Mr Gillett—Thank you. We made the submission not so much to make commentary on regulation or any of those sorts of things but to put our point of view of what Bendigo Bank are doing, particularly in relation to community banking. I think it is important to reinforce the fact that there are 87 community banks now open throughout Australia. They are opening at the rate of about 30 a year. Some of those—I guess the majority—are opening in response to branch closures but some are just opening in response to a community's vision of what they might do to better control their capital. The first 40 of those 87 are now making monthly profits. They generally move to a profit situation within 12 to 15 months of opening—and that is a profit back to the community company itself.

What we have seen with all of the branches is that they have increased employment where they have opened and it has certainly improved turnover in the economic trading in those areas. We commissioned La Trobe University to study that for us. I say with a word of caution on the study that, while it was done by an independent body, we did actually pay for it—so take it as you will. The study showed that trading in small towns or retail shopping strips improves by somewhere between 20 and 30 per cent when a banking service is returned to that area. The figures are substantiated in the five branches they studied.

The study made some assessment of the economic impact of having or losing a bank branch in town. They did that in Rupanyup and Minyip. They estimated that the flow-on effect in those two areas to be reasonably substantial. Bearing in mind that there are only about 280 people employed in those two towns, the loss of bank branches in both of those areas is estimated to, over time, flow on to the loss of about 21 jobs—directly in the bank, of course, and then a flow-on through retail et cetera. A loss of 21 jobs in 280 is a significant number. It was estimated that there would be a loss of just over $1¼ million in turnover through that economy in a year. Community banking itself has created 400 new jobs, and there are about 700 directors out there on those 87 community bank boards.

Our future does not necessarily lie in branch banking, as customers move more and more away—and it does not seem to matter what you do. The major banks will quote a figure saying, 'Our customers now only use the branch to do 10 per cent of their transactions' or whatever—that is true for all banks. We still think branch banking has a role to play in terms of some of the high trust elements of banking. That is where you are looking for advice or a bit of quality stuff. If you are looking for the transactional side of things, it is very clear that the Internet and those sorts of devices are going to take over in due course. Customer preference is actually driving that.

What we like about the community banking side of things, with the 700 directors et cetera, is that it has created a lot of new aspirations in these areas. Many of these people have never been on a board before, so we have an obligation to teach them about the duties of directors and about running companies. In a lot of those locations, it is the first new business that has actually been established in 50 or 100 years. If you can picture these towns, you realise that it is a long time since the last business opened there. So it is a fairly new thing to happen. What you invariably get is a rush of enthusiasm, excitement and a bit of aspiration happening, which seems to feed on itself and create renewed confidence and enthusiasm in these areas.

Just to sum up, banking today in Australia tends to be played as a zero sum game—that is, every time a banker makes a decision about improving the lot for their shareholders, the plus to the shareholders is usually a minus to the staff or the customers. We have a view that we can in fact break out of that cycle and build models that actually give a bit to everyone and get the right balance in place. Banking for us is one part of the equation, but it is only a small part of the equation. We are involved in community telcos—we now have two of those established. We are certainly involved in establishing e-trading prospects for all the districts in which we operate. We are very conscious there of making sure that the portal for those e-trading shops is locally based, not in Bendigo, Melbourne, Sydney or whatever. We do not want to take the local traders out of the loop.

The reason for doing that is very simple: we want to see our communities regain control of the capital flows within their areas and regain control of the economic destiny of their areas, rather than seeing the capital outflows we see today through superannuation, managed investments and all those sorts of things. If those areas can take control of that, they are going to become much stronger. Naturally, as a company working in those areas, if we are helping those areas become stronger, there will be a flow-on effect to us—hopefully, we are the chosen banker in those areas and hopefully our business grows stronger too. So, whilst there is certainly a cooperative spirit to what we are doing, there is very much a commercial edge to the way it is set up.

What is the challenge for us in 20 years time? What will customers want a bank for? They will probably want it so that they can seek good, solid, proactive advice about what is good for them and their community. Unless we can win the hearts and the minds of the people—and this is not transactional banking; this is serious community attachment—and win that position as a small player, we will not survive. It is very simple.

Thank you for the opportunity to go over that again. That is the spirit of our submission and an update on where we are with community banking today.

CHAIRMAN—Thank you very much, Mr Gillett. Mr Tim Moore yesterday gave evidence to this committee in relation to a master’s thesis he had done on banking in small centres in Victoria which focused very much on community banks and the Bendigo Bank model. He raised the issue of the possible future closure of some of those branches. In the context of the enthusiasm with which they had been commenced and, despite their current success, he still believes—I think it is fair to interpolate what he was saying—that because of the developments in banking in the future and so on some branches of the community banks will not remain viable and there will be a requirement to close them. He spoke about the negative impact that would have on those communities. Have you any response to that?

Mr Gillett—Yes, we have discussed this with Tim. This is a true partnership, so the bank cannot make a decision to close a community bank and the community cannot make a decision to close a community bank; it is something that has to be done together. You probably spoke to the APRA people and Stephen Glenfield about what happens if a community bank is in trouble or is not going to fly—what the action plan is. It is the same in this sort of situation.

It is interesting—community bank customers actually use the bank less in terms of a percentage of their electronic transactions than the customers of our traditional branch networks. In other words, they have taken to electronic transactions more widely. When La Trobe goes out and asks them about banking, they see a branch service as essential, yet they are not using it much. I think it comes back to the fact that people always like to have somewhere to go to be able to sit down and talk about the technical things, the difficult things, the quality things. I think in the future the vision of bank branches is not going to be by and large buildings like this—magnificent things with marble counters and all that sort of stuff; that will all change. But there will still be locations—in fact, I think there will be a lot more locations—for banking. That is the way we see our business going into the future. I just think that how it is going to look will be quite different and what is performed in that location will be quite different.

Community banking is just the start for us in terms of our company positioning. We are looking to go well beyond banking because we think these centres become bank branches first but then become community enterprises as time goes by. They become the centre for managing all the economic enterprise in that district. It does not matter whether there is a physical representation there or not; there will still be economic flows within those districts. That needs to be managed. Who knows what the future holds? But we do not see that as being a difficulty. All we see is working with communities to enhance other opportunities to make sure that that spot which today is relevant as a bank branch tomorrow is going to be relevant as a bank branch, and a lot of other things as well.

CHAIRMAN—Can I ask you about the nature of your relationship with Elders, and how that impacts on rural communities and agribusiness? As I understand it, Elders have their own banking licence. I assume that means they can stand alone as a bank. But there seems to be this relationship in that the Elders chequebook is a Bendigo Bank chequebook and all this sort of stuff.

Mr Gillett—Elders itself does not have a banking licence. The company structure is Elders Rural Bank. It is certainly strongly branded Elders but the actual company structure is Elders Rural Bank. That is the body corporate that has the banking licence. It is 50 per cent owned by Elders and 50 per cent owned by us. That is pretty much it in a nutshell. We provide all the banking services—that is why you see the chequebooks and the credit cards and the like—and we provide all the systems: the accounts, the operation of the IT systems, the online banking services that consumers use. All of those things are provided by us. Elders provide the retail shops and the customer base.

CHAIRMAN—Is that an alternative to community banks, in a sense, for rural people?

Mr Gillett—Yes, certainly. We are doing our planning for the coming financial year. We are looking to establish with Elders representation in some of those sites because Elders has about 320 locations throughout Australia. We would be looking to put a stronger banking presence into some of those. That is part of our planning process. So we think there are opportunities.

CHAIRMAN—Would they be looking to attract customers other than farm banking customers?

Mr Gillett—To date, they have not. But I think you will find that they will move that way.

CHAIRMAN—I also notice that you devote a very significant portion of your submission to investment in regional areas. You say:

> We have established a Regional Investment Fund specifically aimed at attracting superannuation monies back to small to medium enterprises (SMEs) in regions.

Perhaps you could enlarge on that issue and the difficulty of attracting investment into rural and regional areas and also in that context comment on the United States mandatory requirement for reinvestment back into what are regarded as disadvantaged areas. There is an act which requires a certain proportion of funds to be provided back to disadvantaged areas. What is your view of that sort of mandatory provision?

Mr Gillett—Yes, that is an interesting one.

CHAIRMAN—I may need to grab my files and dig it out.

Mr Gillett—It is our view that the economies of small rural areas in particular do suffer from a capital drain. That is largely brought about by the imposition of the collection of superannuation moneys and the fact that people in those areas often invest with their own funds anyway into managed investments or the stock market—those sorts of areas.

CHAIRMAN—If I could just interrupt, it is the 1977 Community Reinvestment Act that requires that.

Mr Gillett—I would probably like its intentions. I think we would need to be careful with it. That is quite a significant drain. Our contention is that, if some of that money was coming back to regional areas and was used productively, that would dramatically improve the economic lot of those areas. The difficulty when you are doing that is that you are investing people's money and their superannuation, so you need to make sure that the structures are in place and that where this money is going to is investor ready; that they are sound businesses; and that, hopefully, they are not going to make any errors or at least minimal errors with that money invested so that it is gainfully employed. It is not a big pit. You cannot keep tipping it in because it is a nice thing to do; it has to be commercially sound. For any compulsory direction like that, you would need to make sure there were some structures behind it to ensure the money was safe. That is why we have set up a development fund. It is ruled by ASIC, so it is monitored.

CHAIRMAN—I think you refer to this, and certainly I have been aware of the issue, particularly with the compulsory superannuation fund: although it is for the benefit of retirement and the long-term benefit of the individual, in terms of the community, there is an element of confiscation of money from that region. It is taken away to some other centralised point and, as you say, not invested back in there. If you did not have that compulsory element, the money may not be saved but would be spent in the region and at least generate economic activity.

Mr Gillett—Superannuation funds invest in large publicly listed companies with minimum capitalisation of $50 million, or some other figure; I cannot remember. But the number of those companies in regional areas is very small, so they see very little of that money coming back. Regarding property trusts, that money goes up and down all of the east coast.

CHAIRMAN—How long has your regional investment fund been established? Is it too early to tell how successful it is proving?

Mr Gillett—It is going slowly. To date, two companies have had use of funds out of the fund. They are travelling very well. But I think it is fair to say we have not been killed in the rush at this stage.

CHAIRMAN—When was it established?

Mr Gillett—It has been going about 18 months.

CHAIRMAN—Has it attracted investment—funds in?

Mr Gillett—In one sense it has got more investment than it needs.

CHAIRMAN—Are you getting more in than you can actually invest out?

Mr Gillett—Yes, we have not really flogged that side of it, if you will excuse the phrase. We have a surplus and we need to get it out the other side.

Senator MURRAY—Professor Harper outlined a kind of market characteristic whereby the closure and ending of one set of service provisions leaves a vacuum in which other entrants come in—not necessarily immediately but over some time. The Bendigo Bank community banking concept may be seen as doing that: the withdrawal of the majors has provided a market opportunity for new entrants. The consideration for us is whether the barriers to entry or the cost impediments in a market sense affect the ability of that vacuum to be filled.

One of the propositions put to us is that the law makes shared facilities more difficult than it need be. Listening to the majors, it seems to me that culturally, even if it was possible in terms of law, they are uninclined to do much sharing. But listening to you, the obvious opportunity if you are dealing with capital and financial needs and regional and local development in the way you have described is for a financial services facility, which includes banking, to exist on a multiproduct basis sourced from differing institutions, not just from the same institutions. For instance, it is impossible to conceive of the Bendigo Bank at this stage as being able to provide the full suite of financial services that are needed. The obvious opportunity then is to outsource those, provide you through your physical facility the operation. In a broad sense, I would firstly like your cultural response, if that is possible, to the idea of sharing facilities with other providers of financial services or banking services. Secondly, can you advise us whether you find there are particular legal or regulatory impediments to the expansion of your services and your ability to service the market opportunities that you see?

Mr Gillett—Firstly, if we are talking about sharing distribution—that is, having representation from each bank in the one spot—I think that is nearly impossible. We would even say ourselves, we distribute product on behalf of other people and we see our place in the market as being retailers. We are not manufacturers of product; we are not servicers of product, even though we do quite a bit ourselves. We take in product from other financial services providers et cetera but we see ourselves very much as a distributor and we very jealous of the fact that that is our strength and we would wish to preserve that. I think most of the other banks see themselves the same way, and I do know when this comes up in discussion it never gets very far from that point of view. The idea of sharing at the distribution point is a difficult one and I doubt it would ever go, even though a lot of us would be prepared to distribute other people's products on their behalf. That is a different possibility.

Senator MURRAY—But the proposition you are putting already distinguishes you in the market segmentation sense because, although the big banks will refer to themselves as retailers, they are not. They only provide the products that they produce whereas the classic definition of a retailer is that they provide the products that other people produce. You would correctly describe yourselves as a multiproduct retailer. Then move to the second part of my question: are there problems in law or regulation which restrict your ability to be a full retailer of the full range of banking and financial services products which are sourced from others?

Mr Gillett—No, I am not aware of any difficulties there. The only thing I would flag I suppose goes to the heart of competitiveness. What we noted in Western Australia—we have quite a few community banks there; there are 22 or 23—is that the state government took an early view that, in order to give these community banks their best chance of success, they would actually wipe out stamp duty on the transfer of the banking business on the mortgages and the likes.

Senator MURRAY—They have done it or they say they will do it?

Mr Gillett—They have done it.

Senator MURRAY—Has it made a difference?

Mr Gillett—I cannot prove it has made a difference, but the fact that there are so many community banks in Western Australia and the fact that they are growing quite strongly and quite successfully suggests that it is working well in Western Australia. That is one of the things that keeps coming back to you in your surveys of customers and potential customers, the things they always throw in your face are (a) the rigmarole the bank makes them go through in changing, and (b) the regulatory cost with stamp duty and the likes of changing. They are the two big-ticket items they throw up. They also quote issues like the 100-point ID. I do not know why it is because, if you ask me, producing 100 points of identification for most people is simple; we have probably all got it on us, but for some reason they see it as an imposition. They certainly see the stamp duty costs as an imposition, and it can amount to thousands of dollars for a medium-sized business. So that does help.

Senator MURRAY—With portability, which is one of the issues that we have been discussing, is the cost side the big side, or is it the process side—the ease, the complexity and the time taken to move it?

Mr Gillett—The cost side would be the bigger of the two.

Senator BRANDIS—The Bendigo Bank is, in most people's perception, the success story among the community banks. You have branches all over the place. I know that in Queensland, where I come from, there are several branches of the Bendigo Bank. There are two things I want to ask about that. Firstly, what is the secret of your success; why has your growth path been strikingly different from that of other community banks? Secondly, on the negative side of your success, when does a community bank grow so large and its network of branches become so extensive that it ceases to be a community bank?

Mr Gillett—I need you to speak to our board and let them know that we are successful. That would be good!

Senator BRANDIS—You appear to be successful.

Mr Gillett—We are working on it. Bendigo Bank is described as the community bank, but the fact remains that every one that opens is a community bank in its own right. In the Queensland case, the Paradise Point community bank is managed by its own board at the local level with its own staff.

Senator BRANDIS—So you are just badged.

Mr Gillett—Yes.

Senator BRANDIS—Okay.

Mr Gillett—In our books it is an amalgamation of the lot. We have the vision: in three years time we think we will probably have 150 branches that we own and run and there will be about 250 branches that the communities run throughout Australia.

Senator BRANDIS—Arising from that, in relation to those that are run by the local communities, what is the extent of control from the franchisor—the Bendigo Bank? And, in relation to the 150 branches which you yourselves own and run, my point still holds: when do you cease to have the character of a community bank when you have become that big in your own right?

Mr Gillett—I think when you lose the ability to actually partner. 'Partnership' is a word that is thrown around a lot. A true partnership is a very lively thing. You cannot make this model work if you come into town and say to someone, 'I am going to bless you by providing you with a community bank.' It does not happen. It actually requires the community to go on the front foot. They raise anywhere between $350,000 and $500,000—usually between $400,000 and $500,000—for this particular venture. They have to prove a business case which has sufficient banking volume in it to pay back that sort of capital investment. They then have to marshal, engage and unite all the people in that town to come together as a buying group to make it a successful model. So much of the success of that model is dependent on that local community. We have to prove that before we actually open one. We do that with them. It says to me that while they are going through that process then surely they must be successful. The banks are still run as their own businesses in their own right. What keeps them going into the future? I talked about the profit before, and the size of the banks varies, as you can imagine. We have a community bank in the hills here in Melbourne, so it is semimetropolitan and semirural. This year they will probably make $360,000 net profit before tax from their original community banking venture—

Senator BRANDIS—Of that, how much do they get to keep to reinvest or to distribute as a dividend and how much goes back to the franchisor? Do you charge a fee or is it ad valorem? How is it managed?

Mr Gillett—Our franchise fee is $50,000 for five years, so it is $10,000 a year.

Senator BRANDIS—So it is a flat fee. There is not an incremental ad valorem charge depending on their profitability?

Mr Gillett—No. To be clear, it happens in another way. When they put the money in, what they get for it is all the uniforms and equipment, the branch fitted out, advertising money, training—

Senator BRANDIS—They get the goodwill.

Mr Gillett—They get the goodwill. Of that money that we talked about raising, we get $50,000—the franchise fee. When the banking business comes on board, every dollar of business generates a certain margin and we share that margin. So we get money out of the margin and they get money out of the margin as well—it basically works half and half.

Senator BRANDIS—I see. So, as well as getting the fee, you share the profit with them.

Mr Gillett—Yes.

Senator BRANDIS—Is there a standard formula?

Mr Gillett—It is not a profit; we share the income.

Senator BRANDIS—However it is characterised, what is the formula to divide it between the franchisor and the franchisee?

Mr Gillett—Any variable rate business is split fifty-fifty. For any fixed rate business, because it sits in the books differently, they get a 0.5 per cent trailer on every dollar. The more business resides in their community bank, the more margin they earn and the more margin we earn.

Senator BRANDIS—What happens to the margin that goes to you, the franchisor? Does it get distributed to the original Bendigo Community Bank?

Mr Gillett—We are a company limited by shares—

Senator BRANDIS—So it is distributed to your shareholders in a dividend?

Mr Gillett—Yes, or it goes to our side of running that particular part of the business; there are expenses out of that as well.

Senator WONG—The figure of $360,000 you gave when you talked about the profitable branch or bank—I cannot recall where it was—is presumably a net profit?

Mr Gillett—Yes.

Senator WONG—That is after your margin has been taken out?

Mr Gillett—That is their share of the margin minus their local expenses. Some of them, such as those in small country towns, might only make $40,000, $50,000 or $60,000 a year; they vary.

Senator BRANDIS—But presumably, since they are essentially not-for-profit organisations, as long as they break even the experiment has been a success?

Mr Gillett—Yes. There is no doubt that when they start the very first purpose most communities have is to return banking services to their community because that has a flow-on effect on trading. It then usually moves on to the situation where these people have put in the $400,000 or $500,000 the community pays them and they pay between five and 10 per cent dividend—it varies—to the investors in the scheme. When all is said and done, that still leaves a pool of community profit. It is a collaborative effort, but at the end of the day the local board determines where that money goes. We encourage them to put it to productive use.

Senator BRANDIS—This comes back to my question, which I do think you have yet addressed, about the extent of the franchisee’s autonomy from the franchisor. They pay their franchise fee and their share of the income stream. What say, if any, do you the franchisor have in the way they allocate their remaining profit? For example, let us say the Paradise Point branch—which I take to be a franchised operation—made a profit of X thousand dollars in a given year and the board decided to donate that profit to community activities within the locality, like a swimming pool or what have you. Subject to the instrument by which they are established, whether it be articles or whatever the legal instrument is that delimits their powers of disposition, do you have any say in what they do with their profit?

Mr Gillett—We have a say but we do not have any overall—

Senator BRANDIS—Could you say, ‘Yes, you can do this,’ or ‘No, you can’t do this’?

Mr Gillett—Only to the extent that it is legal or the usual legal matters that appear in a franchise document.

Senator BRANDIS—So, subject to the franchise agreement, they are autonomous?

Mr Gillett—Yes.

Senator BRANDIS—Another issue I have asked a couple of other witnesses about—this is not necessarily in relation to the Bendigo Bank or its franchisees—is that many of these community banks are very thinly capitalised. There are obvious problems in that if bad lending decisions are made, yet the evidence is that none of these community banks have as yet gone bust. Do you see that as a problem? Do you think there should be minimal capital requirements?

Mr Gillett—No. They do not carry the balance sheet. The risk that resides in the balance sheet of community banking sits with Bendigo Bank.

Senator BRANDIS—So you guarantee their advances?

Mr Gillett—Yes. That is a positive—

Senator BRANDIS—What about the others, though? Let us not talk at all about Bendigo Bank or its franchisees now; let us talk about other community banks that are not related to yours. Do you see the thinness of their capitalisation as potentially a problem with which this committee ought to be concerned? Do you think there ought to be minimum capital adequacy requirements?

Mr Gillett—I do not know how they work. A lot of other organisations have used the term 'community' and have attached that term to their operations, but, as best I can tell, there is nothing that distinguishes that—apart from the word—from their day-to-day operation. Therefore you would expect that, as the business is written and appears on the financial institution's balance sheet, the regulator would be making sure that there is sufficient capital there to cover risk.

Senator BRANDIS—But as a participant in the industry competing against other community banks, either directly or through franchisees, you do not record a concern about the capitalisation of some of the smaller of these financial institutions?

Mr Gillett—I have to say that, to the best of my knowledge, you would not add up on two hands the number of community banks that are operating outside of the Bendigo model.

Senator BRANDIS—You mentioned how hundreds of local people who have never been directors before are now directors. Is any training given to those people?

Mr Gillett—Yes.

Senator BRANDIS—What is that, please?

Mr Gillett—Basically, we bring in everyone who starts on a board for a training course. We hand out the directors handbook and we go through that and what it requires. From time to time, if we are having a conference or the like, we might get some ASIC people to come in and speak to them about their responsibilities—just to give it some weight, particularly when some of the enforcers talk about some of the penalties. The board does not commence until they have had some grounding in directors' duties.

CHAIRMAN—How would the training you give compare with, say, something like the Australian Institute of Company Directors courses that are available?

Mr Gillett—We take some of our material from the institute, but I do not know how the training compares.

Senator BRANDIS—What prudential supervision do you undertake in relation to your franchisees? Do you require weekly or monthly reporting? What is your oversight role?

Mr Gillett—They are overviewed in the same way as the branches we own and run ourselves. Our business is broken into regions. Some of the people in those teams are what we call operations managers, and their role is to actually visit each site—whether it is community owned or company owned—and sit down and check the diaries. The diary system lists about 20 or 30 things you do in the course of a month as a banker to make sure you are above board, and the operations managers tick them off to see that they are being done.

Senator BRANDIS—Lastly, you mentioned before that you could count on two hands the number of community banks that are in operation outside the structure of Bendigo Bank. How many are there, in fact? How many other community bank structures are there in this country, other than those that operate under your auspices?

Mr Gillett—The only two branches that I would count as being community owned models, which is where I make the distinction of what a community bank actually is, are with Heritage Building Society.

Senator BRANDIS—That is the one in Ipswich in Queensland?

Mr Gillett—One of their branches is in Crows Nest, but I cannot remember where the other one is. They are based in Toowoomba.

Mr CIOBO—Mr Gillett, you mentioned earlier the Paradise Point Community Bank. Whilst it is not in my electorate, it is to the immediate north. That would strike me as being a community branch that is dissimilar to what I expect most of the others would be like insofar as it is in Australia’s sixth largest city and it is very much not part of a regional centre in the traditional sense. When you have a climate like that and when it is, I would argue, fairly well serviced by traditional banks, how is it going?

Mr Gillett—It is going well.

Mr CIOBO—What was the incentive?

Mr Gillett—I do not think we should underestimate. Of the community banks that open now, about half are in suburban areas throughout Australia. The pressures expressed by regional people when they lose their banking services are also expressed by suburban people when they lose their strip banking. In the cities, so many of the branches have been amalgamated into one big super branch. In that strip shopping centre, which for so many is their local community, they feel the same sense of loss and the traders feel the same sense of loss as well, and in a financial sense. So, one, it is going well and, two, the model works well in that suburban environment because of that.

Mr CIOBO—In terms of some of the evidence that you have seen with the establishment of that community bank—and I am fairly certain it came hot on the heels of bank closures in the Paradise Point region—what impact has it had on the local community?

Mr Gillett—It has been well supported by customers and it is growing rapidly. I do not have any evidence of what the traders, for example, would say that it has done to the local shopping area or anything like that.

Mr CIOBO—But generally, anecdotally, it seems to be positive.

Mr Gillett—Yes.

Mr CIOBO—This is a question that Senator Wong and I were discussing earlier: is there anything that we as a committee can recommend that will make it easier for community banks to be established?

Mr Gillett—In terms of the difficulties that we have found over time, it would be fair to say that some of the provisions of the FSRA created some costs for community banks at the local level. We are very conscious of the fact that it is a large sum of money that they have to raise. Anything that adds to that cost or detracts from the potential of getting over the line is a problem. There are some things you must do as a minimum in terms of regulation. Regulation is here to make sure that there are no market failures. At the end of the day, if it overdoes it and adds too much cost then it will limit the number of community banks that can ultimately open. We think that the opening of community banks is to the benefit of communities. If we limit that, then we have probably not done ourselves any favours. I cannot stand here and say that we should not have regulation—that is silliness—but we have to make sure that whatever regulation is in place is done for the right reasons and at the right cost and does not simply preclude us from expanding some of these types of businesses in the future.

Senator WONG—To follow on from that, in another inquiry there were quite a number of submissions about the imposition of PS 146. My recollection is that for the Bendigo Bank the costs associated with it were something that your organisation did some work on. I understand that that has been revised and there have been some further discussions with institutions such as yours. Does that deal with the concerns that you have just raised?

Mr Gillett—To some extent. I hope in terms of saying this that it does not become a shot at FSRA, because we are a working with it and we are happy to do that, but—

CHAIRMAN—We are working with it but, as you might be aware, this committee has on three occasions recommended that basic deposit products should not be part of the regime. We believe that ASIC’s policy statement PS 146—the one that came out in January—is a different form of response to our concern than the one we have recommended. Our question is: is it going especially far to deal with the problem?

Mr Gillett—I am preaching to the converted. Everything you do has a cost. To our mind, the simple or basic bank deposits that appear in that and the fact that they are capital guaranteed—

Senator WONG—I do not really want to go into that argument again because we have had that discussion. I appreciate that that is your position, and it is a position that has also been put by a number of financial institutions. However, what I am interested in is whether or not your concerns are addressed at all by the revised PS 146.

Mr Gillett—Yes, to some extent.

Senator WONG—Right. Apart from issues around consumer protection, regulation and the cost, which I understand you have a concern about, are there any other particular issues that you say would be useful for government to address in order to facilitate the establishment of community banks? If you want to think about it and take it on notice, that is fine.

Mr Gillett—I will do that.

Mr HUNT—I have three questions. The first is about the business model of the banking corporation as a whole, and the second and third come down to the level of the individual community banks. Is it an accurate understanding that Bendigo effectively runs two types of branches—those that are wholly owned by the banking corporation and those that are owned by the community? You mentioned that you were looking at having 150 wholly owned branches and 250 community owned branches within three years—is that an accurate assessment?

Mr Gillett—Yes.

Mr HUNT—Do those ones you run yourselves have a community advisory board?

Mr Gillett—No.

Mr HUNT—They are run by central office in a style which is close to the traditional model for banking within Australia?

Mr Gillett—Yes.

Mr HUNT—You currently have 87 community owned banks?

Mr Gillett—Yes.

Mr HUNT—I want to try to understand the capital model and the business model for those. This is more for my clarification than for anything else. Regarding the capital model, the franchise is purchased by the collective community group, and they put in, say, $400,000 or $500,000. Does that money go towards the establishment cost of the bank and the five-year franchise?

Mr Gillett—Yes, and also some working capital in the initial stages.

Mr HUNT—So some of it actually goes into the ledger?

Mr Gillett—Yes, as I said, it generally takes them 12 to 15 months to get to a profit situation. During that time they are carrying costs that their income does not cover, so there is some need for working capital through that period.

Mr HUNT—So it is working capital; it does not relate to the actual borrowing and lending ledger?

Mr Gillett—No.

Mr HUNT—Is that entirely owned by the corporation itself?

Mr Gillett—Yes.

Mr HUNT—Okay. You mentioned that 40 of the 87 were currently making a profit. The others are living off their working capital. The gross income that is derived is split fifty-fifty between the corporation and the community bank. Within the community bank itself, what is the call on any income they make? Does it, firstly, go to addressing their costs; and, secondly, if there is any profit, would it be more likely to go to a dividend first or to community distribution?

Mr Gillett—There are no rules about that, but—

Mr HUNT—Is there a common practice?

Mr Gillett—Yes, firstly it goes to dividend, and it is usually limited. I think the biggest we have seen was probably 10 per cent or something like that and they usually run around five per cent, which is like term deposit rates really.

Mr HUNT—Are the community investors—the shareholders—in the local bank able to exit easily?

Mr Gillett—They have not been able to exit easily, because—

Mr HUNT—Not at all?

Mr Gillett—You could, but you had to find your own buyer.

Mr HUNT—So there is no market as such. You are responsible for—

Mr Gillett—No, but going on from that, we have actually listed the last two community banks that have opened on the Bendigo stock exchange. So there is actually an open market now for shares in community banks and, over time, we would see most community banks going onto that.

Mr HUNT—In that situation, is there a risk that that will erode the community focus and, given that these decisions are made by a local board, that that would mean that there would be much more pressure for a dividend and less pressure for paying it back into the community? Is that the risk with the model that you have adopted?

Mr Gillett—It is possible, but the maximum ownership is limited to 10 per cent.

Mr HUNT—Maximum individual ownership?

Mr Gillett—Yes. So no-one, in their own right at any rate, can gain control of a community bank company. I suppose a collective might.

Mr HUNT—Is it common practice that the local supermarket and the local pharmacy contribute, because they are likely to be probably the most significant beneficiaries? Pearcedale, Lang Lang and Koo Wee Rup townships in my area all have Bendigo banks. The anecdotal evidence—and the evidence that you have presented—is that they see direct benefits. Have they been consistent contributors?

Mr Gillett—I would think that 90-plus per cent of all small businesses would be contributors to the community bank capital.

Mr HUNT—So, basically, they are investors who can withdraw their money but only if they can find someone themselves who is willing to replace them. What is the incentive for a new member—for somebody moving into the town—to do that? Isn't all the incentive to be a free rider?

Mr Gillett—Possibly. There are so few shares, it is a bit hard to know what the psyche of the buyers and sellers is. Obviously, there are people moving out of the district after they have made the contribution—and a small amount of that happens. To date most of them have been seen to be happy to hang on to their investment.

Mr HUNT—You have one branch, Wentworth, where they have repaid the capital. So they were making sufficient profits that they were able to repay the capital entirely?

Mr Gillett—Yes, that is what they chose to do in that instance. That goes back to the heart of some of the discussions we have. We believe that it is best that we keep the shareholders in because of the incentive to unify the community as a buying group. We talked that through with them but, at the end of the day, their choice and their board's choice was that the shareholders were paid back.

CHAIRMAN—So they bought back the shares?

Mr Gillett—Yes.

CHAIRMAN—Who owns the shares now?

Mr Gillett—I would have to check. It would be a minimum structure.

Mr HUNT—Will it become like one of the corporation's own branches?

Mr Gillett—No. In a sense, it probably runs more like a cooperative. I would have to check.

CHAIRMAN—As there are no further questions, I thank you very much for your appearance before the committee. You have been very helpful. Your answers to our questions have made a good contribution to our inquiry.

Proceedings suspended from 1.06 p.m. to 2.00 p.m.

JENNER, Mr Dennis, South Australia/Northern Territory Branch Chairman, Post Office Agents Association Limited

McGRATH-KERR, Ms Marie, National Chairman, Post Office Agents Association Limited

CHAIRMAN—I welcome the witnesses to the table. The committee prefers that all evidence be given in public but, if at any stage you want to give your evidence or part of your evidence in private, you may request that of the committee and we will consider that request. The committee has before it your written submission, which we have numbered 77. Are there any alterations or additions that you would like to make to the submission at this stage?

Ms McGrath-Kerr—No.

CHAIRMAN—I now invite you to make an opening statement. Following that, we will proceed to questions.

Ms McGrath-Kerr—I will give you a brief background on POAAL and licensed post offices to enable you to see where we sit in the financial services and banking sector. The Post Office Agents Association was formed over 60 years ago and is the representative body of nearly 3,000 licensees who operate licensed post offices in Australia. These licensees form almost 80 per cent of the Australia Post retail network. Each licensed post office is privately owned, and over half of them are situated in regional, rural or remote areas. It is one of the most extensive, and certainly the most disciplined in terms of consistency and quality, service on offer in Australia. Most country licensed post offices—LPOs—are operated in conjunction with another business, such as a newsagency, general store or pharmacy, and most would now sell at least some products other than postal, such as cards, stationery, sweets and small items like that. They have become more diversified and have extended the range of income producing products and services.

We emphasise that licensees do not receive a salary. They are paid for the work they perform under their contract with Australia Post, and they are paid by ways of fees, commissions and discounts according to the volume of work performed. Each licensee pays their own business costs—for example lighting, heating, staff, rent, cleaning and telephone. Those are not paid by Australia Post. About 2,080 of the almost 3,000 LPOs are connected to Australia Post's electronic network. This enables these licensed post office operators to offer the customers in their community both bill payment and financial services. The remaining 900 licensed post offices are not connected to this electronic network, which Australia Post calls EPOS, standing for electronic point of sale. Those small, manual post offices are only able to offer very limited banking services—that is, CBA passbook accounts. Most of the banking services offered to post office customers are only for personal or private customers but, in some areas, small business customers can take advantage of the newly released business banking services. It is only for selected small business customers, and it is only in regional areas at the moment. Both POAAL and its licensing members see that the present decline in banking services offered to rural communities undermines the viability of the localities our members serve and, in turn, the post office businesses in which they have invested.

We are pleased that the government has responded to our suggestions by extending the Rural Transaction Centre program to the operators of licensed post offices in rural areas. This has enabled 101 manually operated LPOs to extend their banking services from the good old CBA passbook to the full giroPost listing. We are aware that banks face the economic reality that will make them unable or unwilling to use their bricks and mortar assets on low volume rural outlets and our people are usually those whom those remaining customers turn to.

Australia Post has an extensive electronic network and the local outlet can provide customers with access to financial services through that. We feel that if the electronic network was extended beyond the 2,080 who are on it at the moment it would be a huge boost to country areas and we have some suggestions along those lines.

Another real issue, when there are no banks, is cash in the community—either too much or not enough. I am sure other people have mentioned this to you, too. It is a real issue in many areas. We are aware that you are going to be doing some site visits and we suggest that some LPOs be included in your site visits. One of our committee members is at Geeveston in Tasmania and she would be very happy to talk to you on the situation of cash in the community when there are no banking facilities apart from the post office.

Our main recommendations were to capitalise on the established and disciplined rural network of Australia Post by: (1), extending the number of financial institutions that provide their services through Australia Post; (2), expanding the electronic network of Australia Post to all post offices in Australia, probably through the Rural Transaction Centre program; (3), providing state and federal government services through appropriate rural LPOs and appropriate community postal agencies; and (4), allowing rural and remote licensed post offices to offer ATM services at their premises.

In looking at those four points, we have considered funding. We believe that the capital and recurrent costs necessary to support those initiatives could be obtained through a combination of financial institutions providing a ‘rural community subsidy’ out of the proceeds derived from the reduction in their rural network. Australia Post could be supported financially to extend its electronic network from funds set aside from the Rural Transaction Centre program and the Telstra rural community service obligations. We thought perhaps also that local communities could provide some financial support for the capital infrastructure along the lines of the business model used by community banks such as the Bendigo Bank.

We feel that special consideration should be given by Australia Post to supporting rural post offices by: providing a greater share of its commissions to rural licensees; providing independent experienced business advisers for small post office operators; reducing the costs charged to rural post offices, particularly in the area of technology; and providing some relief arrangements for rural operators to enable them to get a break from time to time. Thank you. We are happy to take questions.

Mr HUNT—With regards to the notion of extending the EPOS facilities, that is about 900 points of presence where there are licensed post offices but there are not EPOS facilities?

Ms McGrath-Kerr—That is right. But of that 900 about 100 are in metro or suburban areas. As this inquiry is looking at rural areas, it is about 800.

Mr HUNT—I have been dealing with this in the case of a little post office in Somers. They fall short of the 12,000 transactions necessary. They think they could build to it over three or five years but it is one of those cycles that by definition they are not going to have the number of transactions until they have the facility to carry out a lot of them. They think their demand will go up significantly once the product is there for people to purchase.

Australia Post argues that 12,000 transactions is the threshold for being financially viable. Do you have any evidence or opinion on whether that is the case? If so, what would the degree of subsidy have to be for the introduction of EPOS facilities where there are less than 12,000 transactions?

Ms McGrath-Kerr—There is a shortfall figure. I will ask Mr Jenner to talk on this.

Mr Jenner—They are now eligible to come in at 5,000 transactions. What happens in practice is that, once they obtain the technology, the flow-on effect becomes greater and they do get over the 12,000. They can never get to the 12,000 unless they have—

Mr HUNT—Absolutely.

Ms McGrath-Kerr—It is a catch-22.

Mr Jenner—Yes, it is a catch-22. You cannot get to 12,000 but, if you are allowed to come in at the lower level of 5,000, because you can now offer so many more services, you easily reach the 12,000.

Mr HUNT—Let me put it a different way. Do you have any evidence as to the multiplier effect of introducing EPOS facilities over a two- or three-year period? What is the level of growth in transactions likely to be within a country post office?

Ms McGrath-Kerr—It depends on the size of the catchment area, obviously.

Mr HUNT—But as a percentage change—

Ms McGrath-Kerr—We do not have any hard facts, but anecdotal evidence tells us that, within two or three years, they have reached 10,000 transactions. That is actually the mandatory limit for having EPOS—12,000 is the profitable limit. So there is a difference between 10,000 and 12,000 transactions per year. Depending on the area, it does become profitable after two or three years.

Mr HUNT—Would you be able to supply the committee on notice with any information you have as to the two- to three-year trend of change in the volume of transactions for those LPOs which have adopted EPOS facilities?

Ms McGrath-Kerr—Yes. We have a list—which was provided to us yesterday by the Department of Transport and Regional Services—of the 101 licensed post offices which now have EPOS through the RTC program. We can select some of those and find out what their figures are.

Mr HUNT—That would be tremendous, thank you. As you say, there is the catch-22 situation where, unless they have 12,000, they will not qualify directly through Australia Post; they have to try to shoehorn in under the rural transaction centres and, if an area does not qualify under a rural transaction centre, it will not qualify under the direct Australia Post system even though it might get there over a period of time once that system is introduced.

Ms McGrath-Kerr—True.

CHAIRMAN—I have a question in relation to a post office providing banking facilities. One of the issues that has been raised with us is the concern about privacy. Whereby bank customers previously were confident of the privacy of their institution, the bank manager or whomever they were dealing with in terms of their financial affairs, they have expressed concern that post offices, in-store facilities and so on may not provide that same degree of privacy.

Ms McGrath-Kerr—Do you mean privacy while they are at the counter transacting their business or privacy of their paper work after they have left the outlet?

CHAIRMAN—Both. Privacy at the counter has been raised, as has privacy with respect to the fact that there is a wider range of staff than is perhaps the case at a bank knowing about their financial affairs in a small community.

Ms McGrath-Kerr—I can assure you that, with respect to the bank that I go to, there is no privacy whatsoever. When I stand at the counter, everyone in the bank hears what is said—we can all hear each other. So I do not think there is any difference these days between a bank and a post office when it comes to privacy at the counter. It is amazing what you learn about other people’s financial transactions when you are standing in a queue at the bank.

Many post offices have set aside an area for banking. They have a screen so that any paperwork that is being dealt with is not seen by any other customers who might be standing alongside the customer doing the banking. Obviously that is different from outlet to outlet. But I have seen that myself in many post offices where there is a separately screened privacy area, shall we say—not just banking but any sort of business that is being done at a post office counter. For instance, Billpay is not the sort of thing that you want spread around.

As for the paperwork once the customer has left the outlet; both licensees and all their staff are checked by Australia Post—security checks are done on them. All of them stand the very good chance of losing their job should they be indiscreet about anything that happens in a post office from a registered letter through to personal banking. Perhaps Mr Jenner has something to add to that.

Mr Jenner—I work in a country post office in South Australia. As post office people—and I have been one for nearly 40 years—we are privy to a lot of other secrets as well. That is the nature of our business. So discretion is part of our job in a range of things, and banking would be no different.

CHAIRMAN—Four difficulties they have been raised in submissions as far as post offices are concerned in delivering banking services are: a lack of new technologies—where it is not always possible to receive a bank balance or to transfer funds between accounts; lack of security—equipment is not of the same security standard as that of banks; I have raised the privacy issue already; and that there is no professional advice available—no loan managers, financial advisers or bank managers and so on. Would you like to comment on those four concerns.

Mr Jenner—A lot of those facilities are now available over the phone, and banks seem to be pushing that. The managers have been taken out of country branches and, instead, you ring a number and speak to someone or the loan manager will come to your home or you can look it up on the Internet—all those sorts of things. So there is a trend away from the local branch anyway.

Ms McGrath-Kerr—We have covered privacy. In relation to lack of security, POAAL has worked with Australia Post. We have very rigid checking for security in post offices. I assume that we are talking about hold-ups and that sort of thing.

CHAIRMAN—Yes.

Ms McGrath-Kerr—Each LPO is individually assessed a minimum of once a year. Should they change their location or change the set-up in the post office in any way, they must be security screened yet again. We are very proud of the fact that the work we have done with Australia Post has resulted in significantly less hold-ups, break-ins and other unfortunate events. Any information that may have been based on what happened three or four years ago would be quite different to what has happened today. A lot of work has been put into it. We have a standing steering committee with Australia Post—with POAAL representatives, Australia Post headquarters representatives and representatives from the union. We meet a minimum of once a quarter to discuss security issues. The next meeting is in March. We are very confident that security standards are very high in post offices.

The technology in a post office is not the same as at a bank, but it is very good. Bank balances are given. I cannot imagine where you were given that information from, but I can assure you that bank balances are given. People may do a straight inquiry. They do not have to do a deposit or a withdrawal, for instance, if they want to find out what is in their bank account. They may do a straight inquiry at a post office using the pin pad to access their balance and transfer funds between accounts.

Mr JENKINS—Yes, it is possible to transfer between accounts.

Ms McGrath-Kerr—You can do that in an ATM anyway. So I am not quite sure where that has come from. The only reason a customer might not be able to do that is if the line between Australia Post and the CBA was momentarily off-line. There might be a period where you would not get access, but that same thing happens within bank branches and, of course, with ATMs—I am sure that, like me, you have fronted up to an ATM and found that it was out of order. But, apart from that, the technology is adequate. It gives balances and transfers can be done.

CHAIRMAN—One of the issues is the delivery of cash. I understand that up until 1996 Australia Post used to offer a cash delivery service to rural areas, but it ceased that, principally because of concern about security. Are you aware of the background of that decision and whether the situation has changed or whether there may be a capacity for Australia Post to again undertake cash deliveries to regional areas?

Ms McGrath-Kerr—Most transfers of cash between post offices is done by a security company. Australia Post has an arrangement with Armaguard currently, I believe.

Mr Jenner—Currently, yes.

Ms McGrath-Kerr—You would have to speak to Australia Post about that. They have recently renegotiated their contract with Armaguard. Two-key safes are in most post offices. All that has come about through our security steering committee meetings with Australia Post, because we were concerned about the transfer of cash—as, indeed, was the union—and excessive amounts of cash being held on premises. But we believe that that has been overcome by the use of security firms such as Armaguard and two-key safes in post offices.

CHAIRMAN—A related issue to that is an issue which was raised by the Council of Small Business Organisations with us in their evidence yesterday. They said that Australia Post had placed a limit on cash deposits of $3,000 per customer per day. That obviously makes it extremely difficult for a small business to manage their cash holdings. Is this your understanding of the situation?

Mr Jenner—That relates to business banking. That is at selected sites only and I think that is to limit the amount. Business banking is still being trialled and we cannot accept everything, so a limit is put on it to trial it down. Certainly, $3,000 is a limit for business banking.

CHAIRMAN—Does that mean that for non-business people you would accept more than $3,000?

Ms McGrath-Kerr—Yes, subject to the requirements of the bank. There are cash reporting requirements for amounts over $10,000. You do not get many private customers who come in with large amounts of cash.

CHAIRMAN—So why would a distinction be drawn between an individual non-business customer and a business customer? A non-business customer can bring in more than $3,000 but a business customer, who probably has more need to do so, cannot.

Ms McGrath-Kerr—Yes, but it is less likely to happen. The local supermarket or hotel or service station could conceivably bring in $20,000, $30,000 or $40,000 worth of cash. You could end up spending half the morning counting it, because we are not like a bank, which has note and coin counting facilities. It could tie up a staff member for an entire morning on one deposit and the commission out of that might be $1.23. It is a business decision and Australia Post is monitoring the amounts of cash that are deposited through the small business bankings. The average is certainly not $3,000—it is in the hundreds. So it would be only the odd customer who would need the facility. Most businesses get paid by cheque or by credit card, and that is what they are banking when they come to the post office. Mr Jenner has the post office in Angaston in South Australia and it is an approved outlet for business banking for selected customers, so I have an expert sitting to my right.

CHAIRMAN—We will actually be visiting Angaston in a couple of weeks on the inquiry.

Mr Jenner—Are you?

CHAIRMAN—Yes! We understand that giroPost is not available in all outlets or localities. Australia Post has told us that an outlet with less than 12,000 transactions annually is regarded as not viable. Do you accept that figure that Australia Post has put forward or do you have a different view of what a viable giroPost outlet requires in terms of throughput?

Ms McGrath-Kerr—This is the catch-22 situation that Mr Hunt brought up. At 10,000 transactions per annum Australia Post considers it mandatory to have their technology. If you are a licensee you do not have any say in it—you get the technology and therefore you get access to giroPost. At 12,000 transactions per annum it starts to make a bit of money for you. I suppose it is like having a little shop and buying a new fridge, freezer or something like that. At what point does the fridge or freezer pay for itself and start to make a bit of money? It is the same with technology; until you put it in you do not really know.

Yes, we think that 10,000 to 12,000 transactions per annum is pretty accurate. It is not a lot. We are not just talking about banking there; we are talking about money orders issued and paid, Billpay and banking. So that is not very many transactions. I think there are about 263 working days in a year. So, if you divide 263 into 12,000, you are not looking at very many transactions a day, are you? It is a pretty small outlet. Australia Post says that it costs around $20,000 to put the technology into a post office. If they are going to spend $20,000 plus ongoing costs and they are only going to get 10,000 transactions a year out of it, it is an economic decision for them.

Most of these smaller post offices are definitely in rural areas, as we discussed earlier, and most of them are run in conjunction with another business, such as a general store or similar. The post office is part of their overall business and therefore part of their overall income. However, one of the attractions of a post office is that it brings great foot traffic. If you have a post office, it might only be 25 per cent of your income in the country but it probably brings in 90 per cent of your foot traffic.

Mr CIOBO—The Commonwealth Bank mentioned that about 212 Australia Post sites are used to service Commonwealth Bank small business customers. Have you had any experience of how that is going?

Mr Jenner—From the reports that we see, it is going very well. It is being monitored and it is successful.

Mr CIOBO—I noticed that there has been testimony about the maximum of $3,000 per day, but that could still add up to a fairly significant sum of cash over time. How do you deal with the associated security problems and whatnot with large amounts of cash on the premises?

Mr Jenner—There is a flow out of cash as well. We pay out cash as well. The levels of cash are being monitored, along with the security of the offices. All the business banking sites have to have a security check done. Because it is still on trial, it is still being monitored for limits.

Mr CIOBO—To see how it goes.

Ms McGrath-Kerr—On days like pension days, there is a fair flow of money out.

Mr CIOBO—Are there any impediments to the expansion of these services?

Ms McGrath-Kerr—In country areas?

Mr CIOBO—Yes.

Ms McGrath-Kerr—Not really—apart from security.

Mr CIOBO—Sorry, I mean not only in terms of outlets but in terms of the provision of services within an outlet.

Ms McGrath-Kerr—Could you expand a bit on what you mean by services?

Mr CIOBO—I mean not only the roll out in terms of the number of outlets but also the scope of the services that are provided within an outlet.

Ms McGrath-Kerr—Post office licensees, and indeed corporate postal managers, are not qualified to give banking advice as such. As Mr Jenner pointed out before, areas are usually covered by the relevant bank for mobile banking services. If you want to get a home loan, for instance, you ring a number and they will come and visit you at home of a night, wherever you live. There are various other services like that.

We, as an organisation, have encouraged the banks, through our discussions with Australia Post, to provide pamphlets to give to customers. Quite often customers are happy with a pamphlet which describes certain services and gives them a number and perhaps a person to call. They find that useful. I believe in some rural transaction centres a room is let in the building—it might be an old council chambers, for instance—where bank advisers will come once a week, once a fortnight or whatever it happens to be, to talk to locals about their banking needs. That is quite a good service. Of course, it is not as good as having the bank branch there, even if it is staffed only two days a week.

Our experience has been that, when the last bank leaves town, if there are no banking facilities at the post office, the residents then go to the nearest biggest town that has banking facilities and they gradually start taking all their other business to that town, including of course their postal business. Then the other businesses that are left once the bank is gone gradually go into decline. Our experience over the last 10 or 15 years has been that, when the post office leaves the town, the town just dies. So it is in our best interests and our members’ interests to keep the business levels up at the post office. That keeps a community more viable and the community does not lose its heart.

Quite often, the post office is the centre of town, inasmuch as the licensee is either a commissioner for declarations or a justice of the peace. Some of them are also coroners. They do a wide range of community things. They are quite often on the local council. When I was ran a post office, I had three terms on the local council, so I really knew what was going on in the community. They probably run the local meals on wheels service. They are a contact point for domiciliary nurses or whatever it happens to be. Once the post office goes, the heart can go out of a community. So we really encourage Australia Post, the banks and, indeed, the government to provide as many services as possible to these country post offices.

We are very positive about the banking. We have asked that, when the business banking is introduced, it is done gradually and that we assess each stage as it happens—particularly security and cash handling. Sometimes the introduction of special security and special cash-handling measures cannot equate to the commissions—that is, the commissions are not enough to equate to the extra security and cash handling that is needed. One of our suggestions was that, if this is needed, the banks ought to look at providing some infrastructure when they leave town.

Senator WONG—I just want to clarify something that I may have misunderstood in answer to the questions from the Chairman about the $3,000 limit on deposits for businesses. Did I understand your answer, Mr Jenner, to be that that is not across the board, that it is only at specified locations?

Mr Jenner—No, the business banking is only at specified—

Senator WONG—But across the board there is still the $3,000—

Mr Jenner—No, wherever there is business banking there is a $3,000 cash limit.

Ms McGrath-Kerr—But not many deposits come to that level.

Mr CIOBO—What happens to a small business that is frequently in breach of that amount?

Ms McGrath-Kerr—Frequently in breach of the $3,000 limit?

Mr CIOBO—Yes, above the threshold.

Mr Jenner—If they want to bank more than $3,000?

Mr CIOBO—Yes.

Mr Jenner—They would go to the next regional centre to do their banking. That has happened in my case in Angaston. When the National Bank closed there, the bigger customers either swapped over to the ANZ or took it to the next regional town of Nuriootpa, which is a 10-minute drive or something like that. The business banking people we have picked up are the small scale customers. We could never handle all the bigger businesses.

Ms McGrath-Kerr—Our understanding also is that, where some of them may have preferred to have banked once a week and deposited over $3,000, they have split up their deposit and they are perhaps depositing two or three times a week.

Mr CIOBO—I would not have thought that it would take that much to reach $3,000 in terms of the market mix. I would have thought a fairly significant proportion of businesses would hit $3,000.

Mr Jenner—But the businesses that would get to that would be the cash related ones like supermarkets, hotels and that sort of thing, and they would be way over the $3,000.

Ms McGrath-Kerr—The local plumber or electrician or someone like that is going to be paid by cheque.

Mr Jenner—Cheque or credit card.

Ms McGrath-Kerr—They are the ones that often do not have staff—they are one-person businesses—and do not have time to travel to a bigger town to go to a branch, so they think small business banking in post offices is wonderful.

CHAIRMAN—On page 7 of your submission, under the heading ‘Requirements for Implementation,’ you say:

> Major elements to be addressed in achieving the above include:—
>
> The need to extend the technology platform of Australia Post to all LPOs and appropriate Community Postal Agents ...

What would be involved in extending that technology platform?

Ms McGrath-Kerr—With the rural transaction centres, rural transaction centre funding has picked up the extension of EPOS and therefore of giroPost facilities to post offices. We would like to see an extension of that. Some post offices may be so small that even with technology they are never going to be viable, but they will still bring customers in to the other part of their business. I am not sure whether or not I have answered your question.

CHAIRMAN—So what you are saying is that the technology that is provided to rural transaction centres and giroPost centres should go to all post offices?

Ms McGrath-Kerr—Yes.

CHAIRMAN—Did you advise us in your submission what percentage have it and what do not?

Ms McGrath-Kerr—Yes. About 800 do not. At about $20,000 a population, that is a lot of zeroes, isn’t it?

CHAIRMAN—Eight hundred out of how many?

Ms McGrath-Kerr—Three thousand.

CHAIRMAN—So the large majority have it?

Ms McGrath-Kerr—The majority have it. All corporate post offices have it, without exception; all corporate business centres have it, without exception; and a little over two-thirds of licensed post offices have it. So when you look at it on that scale there are not that many that do not have it. It certainly makes a huge difference to what you as a customer can do in a post office, and it cuts down on the paperwork; and it is instant.

CHAIRMAN—What are the procedures under ‘excluding customers from post office services’ that you want to see reviewed by banks?

Ms McGrath-Kerr—What page am I looking at?

CHAIRMAN—Page 7. I do not recall seeing that detail in the submission.

Ms McGrath-Kerr—You mean extending the number of financial institutions using giroPost?

CHAIRMAN—Is that what it means? I was not sure what you meant by saying:

Banks to review procedures to ensure customers are not unnecessarily excluded from using the Post Office services.

How are banks excluding people from giroPost?

Ms McGrath-Kerr—I think some people do not use post offices because of fees—and I am sure lots of submissions have talked about fees. Sometimes banks can reduce fees by encouraging customers to lump several small accounts together, for instance. Some customers have the types of accounts which may not be accessed at post offices. The banks do not always tell them that and, although the post office licensee or the post office corporate staff sometimes tell them, there is not always useful dialogue between the customer and the bank.

Mr Jenner—I believe it could be made easier.

CHAIRMAN—Is the issue of not being able to bank third-party cheques now also a factor in that range of issues you are raising? As you say in your submission, that is designed to minimise fraud. Do you see a way around that without opening up to fraud?

Ms McGrath-Kerr—Most of the fraud that happens in post offices or banking is because of third-party agency cheques. We share Australia Post's concerns on this one. We would be very reluctant to change our views on this. At the moment I could not foresee that happening.

Mr Jenner—The liability comes back to us if we accept a third-party cheque. The bank does not wear it; Australia Post does not wear it; the licensee wears it.

Ms McGrath-Kerr—That is because they have breached instructions. We do not have a problem with that instruction.

CHAIRMAN—What is the concern of Australia Post about the impact on its over-the-counter business if ATMs are installed at post offices? Are they talking about over-the-counter financial transactions or other postal business over the counter?

Ms McGrath-Kerr—We do not believe that there would be any. In fact, it may increase, because our proposal to Australia Post is that licensees who run manual country LPOs and therefore do not have technology should be able, if they desire, to negotiate with an ATM provider to provide an ATM in the wall of their building. That is not going to have any impact on the banking that is there because there is no banking there apart from CBA passbook banking. Customers who come to use an ATM in, let us say, the wall of the business—some of them nowadays are put inside the business—could actually bring extra counter business to the post office and therefore Australia Post. But there is no electronic banking facility there which can be reduced.

CHAIRMAN—So what is Australia Post's concern, then?

Ms McGrath-Kerr—If you find out and let us know, we would be really chuffed.

Mr Jenner—We would like to know, too.

CHAIRMAN—You do not know? The submission says that they are concerned about the effect it might have on over-the-counter business. You do not know the detail of that concern?

Ms McGrath-Kerr—That is what they tell us.

CHAIRMAN—They have not given an explanation of what they mean by that?

Ms McGrath-Kerr—They have not. If we find out, we will let you know.

Mr Jenner—We would love to know.

Mr HUNT—I have one that I wanted to test. I realise time is short. I will run a recommendation past you which tries to deal with the catch 22 situation about the minimum number of transactions before EPOS facilities can be installed in LPOs. The recommendation would be something like this: in calculating the minimum number of transactions for licensed post offices to qualify for EPOS facilities, Australia Post should conduct a formal assessment of the capacity of LPOs to achieve 12,000 transactions within three years of EPOS installation, rather than assessing the situation prior to EPOS installation. At present, the problem is that it is done on the static figure prior to the principal generator of business being installed.

Mr Jenner—I am sure Australia Post would have figures of the multiplier effect. I do not understand why the multiplier effect is not used.

Senator MURRAY—I also do not understand why they take that view when the risk is the proprietor’s. There is no risk to them.

Ms McGrath-Kerr—Part of the risk is Australia Post’s in as much as they provide the equipment and put the line in. We have an arrangement with Australia Post—

Senator MURRAY—Just explain that. Is that costly? If the business failed, they can take the equipment back?

Ms McGrath-Kerr—Yes. We have an arrangement with Australia Post that says that a licensee may, if they do not meet the 10,000 minimum or the 12,000 profitable, put up their hand to Australia Post and say, ‘I would like to try EPOS, please. I believe that once it is in my transactions will increase and I will meet the minimum level required.’ Australia Post then charges a shortfall fee per transaction until they reach 10,000 transactions. If after a period of time the licensee decides that they are not going to reach the 10,000 limit, regardless of how they try, and they are sick of paying the shortfall, they can then say to Australia Post, ‘Come and take this equipment away,’ and Australia Post then charges them a fee for the inconvenience, shall we say.

Senator MURRAY—What is that fee?

Ms McGrath-Kerr—It varies from office to office depending on how far away it is from an Australia Post centre, whether there were any special types of equipment needed and how long it has been in there. If it were taken away after three months—

Senator MURRAY—Are we talking hundreds or thousands?

Ms McGrath-Kerr—Thousands, so you would want to be pretty sure before you put your hand up.

Senator MURRAY—But that surely makes the point that for the Post Office it is low risk.

Ms McGrath-Kerr—For Australia Post, yes—of course it is.

Senator MURRAY—I cannot understand why they are so restrictive about it.

Ms McGrath-Kerr—When you find that out, along with the ATMs, let us know. We agree with you.

CHAIRMAN—As there are no further questions, I thank both of you for your appearance before the committee this afternoon, for your submission and for your answers to our questions. It has been very valuable as far as our inquiry is concerned.

Ms McGrath-Kerr—If any of you have extra questions afterwards, please feel free to contact us.

CHAIRMAN—Yes, we can put them on notice for you. Thank you.

Committee adjourned at 2.46 p.m.