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JOINT COMMITTEE ON CORPORATIONS AND FINANCIAL SERVICES

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

TUESDAY, 25 FEBRUARY 2003

SYDNEY

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JOINT COMMITTEE ON CORPORATIONS AND FINANCIAL SERVICES

Tuesday, 25 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 and Murray and Mr Ciobo and Mr Griffin

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

Committee met at 9.10 a.m.

JENNINGS, Mr Graham Edward, National Manager, Regional Banking, Westpac Banking Corp.

PATERSON, Mr Graham John, Head of Regional Community Partnerships, Westpac Banking Corp.

CHAIRMAN—I declare open this public hearing of the Parliamentary Joint Committee on Corporations and Financial Services. Today the committee conducts the third public hearing of its inquiry into the level of banking and financial services available to Australians living in rural, regional and remote parts of Australia. To date, 131 submissions have been received. The committee expresses its gratitude to all of those who have assisted so far in its inquiry. Although the date for the receipt of submissions has closed, the committee welcomes and is still accepting late submissions. Submissions are available from the Parliament House web site or, alternatively, the secretary can send a copy of the submissions to those who wish to obtain them.

Before we commence taking evidence today, I reinforce for the record that all witnesses appearing before the 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 and 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. I also state that, unless the committee should decide otherwise, this is a public hearing and as such all members of the public are welcome to attend. The committee will also be holding public hearings tomorrow and on Thursday in Melbourne.

I welcome officers from the Westpac Banking Corporation to the hearing. The committee prefers that all evidence be given in public, but should you at any stage wish to give any of your evidence in private then you may request that of the committee and we will consider your request to go in camera. The committee has before it the written submission from Westpac, which we have numbered 110. Are there any alterations or additions that you would like to make to the submission at this stage?

Mr Jennings—No, not at this stage.

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

Mr Jennings—In November 1998, Westpac drew a line in the sand in relation to its commitment to provide financial services in regional Australia. As reported in the Hawker committee report in March 1999, Westpac had announced a major $300 million upgrade of its national retail branch network at that stage and a commitment to maintain a face-to-face presence where we currently had this in country towns. Since then, we have not only acted to draw a line in the sand on rural and regional issues but we have also taken action in relation to our wider corporate responsibilities, and I will briefly refer to that.

In 2001, we established a board social responsibility committee, whose sole purpose is to review the social and ethical impacts of Westpac’s policies and practices and to oversee initiatives to enhance Westpac’s reputation as a socially responsible corporate citizen. This was followed in June 2001 with the publication of *Our social accountability policies and practices: we believe in …* which outlines what stakeholders can expect from us in regard to the way we conduct our business. This includes supporting the code of banking practice and looking after rural and regional communities. I have a copy of this booklet, which I will table for the committee.

Our work in this area culminated in the release of Westpac’s first social impact report in July 2002, which I also have a copy of for the committee. This outlines our performance in 70 key performance indicators of social, economic and environmental responsibilities in accord with the international standards of the global reporting initiative framework. The report includes sections on our customer charter; the transparency of fees and charges; responsible lending policies; access and availability of banking services; and, importantly, case studies on services to rural and regional Australia and our work with Indigenous communities. This was independently audited and recognised by the Dow Jones sustainability index last year, when Westpac was named as the global market leader in the banking sector for its sustainable business practices and policies.

To strengthen Westpac’s focus and direction specifically on regional banking issues, a national Westpac Regional Banking division was established in 1999 under my leadership. Westpac Regional Banking pulls together all of our business in the mainland states of Australia in regional, rural and remote areas. It also includes Tasmania, the Northern Territory and the ACT. So it is one business under one dedicated management structure. Our charter is very much to differentiate Westpac from our major competitors in the way we work with all stakeholders in our regional business: staff, customers, communities and the shareholders.

The progress that we have made over the past 12 months has been highlighted in a report that is being released this week called *Going the extra mile: regional banking report 2003*, which is the story of Westpac Regional Banking. It follows a report last year which was called *Making a difference*. I also have a copy of that for the committee.

We are founded on the basis that we know customers can have different needs, living and working where they do in regional Australia. Similarly, our staff can have different needs, working and living in the communities they live in in regional Australia and given the lifestyle choices they have made. The local communities also need support. So we have action under way in all those areas.

Establishing regional banking, as we have, has shown us the true value and dynamics of our business outside of the mainland capitals. We have over a million customers, including over 100,000 business and agribusiness customers, 400,000 Internet banking subscribers and 700,000 telephone banking subscribers. We have 378 Westpac points of representation: 216 branches and 162 in-stores. The financial performance of this business is strong; it is growing and making a valuable contribution to Westpac’s performance, and that is important to us.

The backbone of my team is a leadership team that is based in regional Australia, in local markets in rural and regional areas. We only have a very small group, seven of us, in head office. We have over $22 billion in loans committed to regional Australia. We have around $10 billion on deposit. That commitment is $2 invested back in regional Australia for every $1 on deposit from regional Australians.

We have invested tens of millions of dollars in refurbishing 33 regional financial centres, modernising many of our other sites and establishing our in-store network. We have over 650 branch and specialist managers working across regional Australia, covering business and agribusiness banking, financial planning and investments advice, home finance, personal finance and banking transaction services, and they have access to the rest of Westpac's specialist infrastructures. The majority of these people are mobile and able to visit customers throughout the wider districts, providing comprehensive coverage. For business customers, we have also established a Country Business Direct service. That is a service which is headquartered in three regional locations, where business customers can telephone direct and speak to country banking specialists for information, help and advice, including lending and investments.

In terms of meeting the needs of smaller communities, we have established a unique position. We have spent over $20 million establishing a network of 162 regional in-stores. These in-store branches are staffed and operated as a banking business within the business of the local Westpac in-store proprietor. The benefits to communities of these are clear: they provide face-to-face banking services for personal and business customers; Westpac, not the communities, has outlaid the capital to establish these sites and pays for their ongoing services; these sites operate full business hours five, often six and, in some cases, seven days a week; and they provide local businesses with another important income stream and access to a large potential customer base.

Our objective has been to build a sustainable alternative to the traditional bank branch, to ensure continuity of face-to-face banking in smaller communities. From the 162 in-stores we have, we have learned a lot. We see the potential to expand services in partnership with the proprietors in some locations, and we have active trials under way where we are doing this. In other locations, the in-stores are more a community outlet and are already part of a shire community facility, a rural transaction centre or a telecentre. We are working with partners such as DOTARS and others to explore the opportunity to further develop these as community service outlets.

Long-term sustainability is important to us. In fact, electronic banking transactions and cheques now account for over 90 per cent of all banking transactions at Westpac. To help push the frontiers of making additional banking services available in rural and regional areas, we have recently appointed Graham Paterson as Head of Regional Community Partnerships. His role is to engage with local communities, with major government programs as potential partners, trying to solve the issues around access to services in smaller communities. This includes working closely with Telstra Country Wide, which is a sister-like organisation to Westpac Regional Banking. We have just completed a trial business seminar for drought affected small business owners in Rochester, Victoria, working with the Australian consultative committees, under the DOTARS charter. We have held a number of dryland season seminars for farmers in drought affected areas in recent months. Graham is also working to take further the work we have done with 'Beyond Survival', 'Let's Talk' and Internet banking seminars. They are all business and education seminars which we have been conducting for some time across regional Australia.

We have taken the leadership in terms of responding to the drought. We were the first out there with a drought assistance package. We have been active in the drought relief fundraising activities and our staff are heavily involved in fundraising for drought affected farmers. We encourage our staff to get involved in the community. We have major corporate programs which take us way beyond cheque writing by encouraging staff to get involved. These include programs such as matching gifts, where the bank gives $1 for every $1 the staff raise for community sources. Since 1998, across Australia, Westpac has matched $3.8 million of donations. We also have programs with Landcare groups—for example, Westpac Operation Backyard—the Salvation Army, juvenile diabetes groups and other organisations.

Graham is also chairing our Indigenous Business Council and working to take forward the commitments made to Reconciliation Australia at the Talking Business workshop last year. He has already been involved in our work with the Traditional Credit Union and the Tangentyere Council in the Northern Territory. We have a major undertaking to help develop financial capability with communities in Cape York. One of my staff is a full-time project manager, and we have a three-year commitment to take groups of selected skilled staff to the Cape to help develop and transfer personal finance and business planning skills.

Our chairman Leon Davis said at the Reconciliation workshop last year that, 'Certainly from Westpac's point of view and probably from other banks' point of view, you are pushing against an open door. We want to make a difference. Westpac is determined to make a difference and determined to show that we will meet our community obligations because they are obligations that we accept and that we will fulfil. This does not mean that we have lost sight of the financial imperatives. The financial disciplines are as strong as ever. It is particularly challenging given world events and local conditions to meet the expectations of the marketplace, which have not altered.'

Westpac also have a lot of activities focused on the challenge of lifting our customer service experience. Recent independent customer survey work shows that, on average, Westpac customers in regional Australia benefit from a better local service experience. We can put this down to a number of things: the relative stability of staff, the employment of locals, the greater knowledge levels and basically a passion for the community that our staff work and live in. To sum up, we are clear when it comes to regional Australia that it is not enough to be a financially strongly-performing company with excellent customer service. Regional Australians are telling us they want a fundamentally different company: a company that local communities know is interested in them and involved in working to help them grow. As a major player that is pervasive in both the Australian economy and society, it is important that we are working in partnership with regional areas and we want and need to be part of the success of regional Australia. We have drawn a line in the sand with regional banking in a way that shows we value the contribution that regional Australia makes to the Australian community and to Westpac's success.

CHAIRMAN—Thank you, Mr Jennings. Mr Paterson, do you have anything to add?

Mr Paterson—No.

CHAIRMAN—The first submission we received for this inquiry was a letter from Mr Neil McLean of Wallaroo in South Australia. He said that he experienced great difficulty in convincing Westpac that he was some 200 kilometres from his nearest branch. I think this was in relation to the issuing of his new or replacement credit card; the bank was insisting that he personally come in to pick up the card and he was asking them to mail it. I will read from the letter:

I have just argued with Westpac for three weeks about their wanting me to personally collect a credit card from a Adelaide branch. I live at Wallaroo and it would have been a round trip of 340klm to collect the card. Eventually (after many complaints by me and several HOURS on the telephone) they reluctantly agreed to post it to my home (I haven't got it as yet though!). Westpac administer the Defence Service Home Loans, however, the Govt of the day whom sold DSH to Westpac failed to consider us country folk in that Westpac have very few branches in country SA. Westpac do not even provide an ATM within the Copper Coast Council area, I think the nearest is Ardrossan. Eligible service persons get locked into the DSH loan with Westpac and then "nothing" meaning nowhere to do business. One of the problems I found is that I was speaking to bank officers in Tasmania, Sydney and Queensland and they had no idea of where I resided. Provision should be made at a local level for residents of rural communities to comply with directions from banks, that demand their customers personally attend to the signing or collection of documents etc. at a branch.

What can we do to alleviate those sorts of difficulties?

Mr Jennings—I saw that letter for the first time yesterday—I was not aware of it previously. It does concern me and I would very much like to take it on as a challenge to change that. We have 24 outlets in regional South Australia, but clearly when it comes to something like that we need to revisit the issue and see what we can do there. I was not aware of that issue previously but am happy to take it on board.

CHAIRMAN—He also refers to the lack of an ATM. Do you maintain ATMs in any location where you do not actually have a branch?

Mr Jennings—Yes. I do not have the exact number of locations, but we have an extensive network of ATMs and a large majority of those are actually offsite, as we call them—they are not connected to a branch.

CHAIRMAN—With regard to points of representation, in your submission at page 4 you refer to the fact that Westpac has more than 2,500 staff in regional Australia at 378 points of representation. In that you include 162 in-store branches. Can I ask what other types of points of representation you are referring to? What is included in that 378?

Mr Jennings—There are 216 branches. They range from a major regional centre with a full service outlet to a local branch, which might be more of an agribusiness branch depending on the local geographic and economic scene. So the 2,400 staff are in one of those types of traditional branch—the regional financial centre type location. The staff in the 162 in-stores are actually employees of the local business proprietor. So additional staff who are employed in those in-stores and who provide face-to-face service are not in those numbers.

CHAIRMAN—Do different banks use different definitions of points of representation? I noted that, in the Commonwealth Bank submission, they state that they have 133,000 points of representation. I assume that is including things like ATMs, EFTPOS terminals and those sorts of things. Is there a need to standardise the definition? Is there a way of doing that?

Mr Jennings—Yes, that would help in terms of doing comparisons. We are clear on what our points are—branches, in-stores, automatic teller machines and EFTPOS facilities. A large number like that would no doubt include EFTPOS facilities. We have 30,000 EFTPOS facilities in regional Australia.

CHAIRMAN—On page 9 of your submission, you say that Westpac would have some reservations about supporting a shared services model such as that which exists in Canada and the United Kingdom. You cite differences in geography and demographics and so on as the reason for that. Have you done any detailed research of those models? How do you see the demographics and geography differing so that they mitigate against that sort of system in Australia?

Mr Jennings—We have established an important differentiation point with in-stores. We have built a true partnership with the local business person, which I think is a great place to be in. Admittedly, as highlighted in the ABA submission, there is a small number of locations where there is an opportunity to do some joint work on a broader basis, perhaps. We have been focused on working with things like the rural transaction centre program and some of the credit unions to see how we can build a partnership with them by supporting them in servicing locations where they have a comparative advantage, such as a linguistic or a knowledge advantage, and building a business partnership on that basis.

Our concern with shared models is that you do not want to create an infrastructure that enables other banks to further withdraw. Despite the fact that we opened 14 locations across Australia last year, the headlines in the papers recently have been that big banks do not meet their promises. So our challenge is to differentiate Westpac from the practices of the other major banks in this process. We have been very focused on points of differentiation and competition. Having said that, as you are well aware, we are doing work with Tangentyere Council, the Traditional Credit Union and others, including the rural transaction centre programs, to really help out in trying to forge solutions for those really disaffected communities.

CHAIRMAN—I think you have a copy of the reference material. Looking at attachment 1, table 1 shows a steady decline in the number of bank branches in both metropolitan and non-metropolitan areas through the 1990s, but that rate of closure seems to have escalated from about 1997-98 onwards. What do you see as the reason for that escalation over the later years of the 1990s?

Mr Jennings—As I said in my opening remarks, we made the commitment to maintain a face-to-face presence so, whilst we might have changed some of our branches to in-stores, throughout the period from 1998 we have actually increased the number of locations that we have in regional Australia. We have gone into a number of greenfield site locations, such as Agnes Water, Boyne Island, Rutherford in New South Wales, some sites around Toowoomba, and Kununurra. We have also gone to sites where Westpac might have been in years gone by and we have re-established there. These include Triabunna, Barraba and Trangie. As I said, we drew a line in the sand and we have stood by our commitment to maintain face-to-face banking. I cannot speak on behalf of the other banks, obviously, but that was a turning point for us.

CHAIRMAN—Several organisations have made claims in relation to the cost to local communities of a bank closing a branch. This cost is the result of a whole segment of business therefore moving to other towns—not just the bank business but other business as well, because people tend to do their business in one spot and so if they have got to go somewhere else to do their banking business they will do their other business there as well.

The Human Rights Commission estimated that $350 per person per month was lost to the local community. The Uniting Church synod in South Australia quoted a figure of approximately half a million dollars being taken from a region for the first year following the closure of a full-time bank service. The Edenhope and District Community Banking Steering Committee cited research indicating that for every person that has to travel to a larger regional centre on financial business $4,000 per head per annum is spent out of their own town. Are you aware of any specific research that has done detailed analysis of the cost in dollar terms to a community arising from branch closures?

Mr Jennings—I am aware of research that has been done, and I am personally working with a number of universities around these areas, which is helping us to understand this further. The issue is very complex, as you can imagine. There is undoubtedly a cost when facilities leave a town. There is work that has been done—such as the ABA work—which indicates that there is a cost when all of the public infrastructure basically leaves town, which has also happened in most of those locations over a long period of time.

We have a lot of competitors now in the marketplace who actually do not have any presence in regional Australia whatsoever, but regional Australians choose to invest and put their money in those services, such as telephone based offerings out of Sydney and so on. So it is a very complex landscape in terms of how customers choose to do their banking services these days, and they have a lot of choice. They have a lot of choice to use alternative channels. As I said, our branch channel, whilst we understand the importance of face-to-face, is actually the minority channel that has interaction with customers on a daily basis, even in an organisation that has got 378 points of representation out there.

CHAIRMAN—I can accept that there may obviously be other methods, including your in-store facilities et cetera, of doing a lot of the banking transaction work, including receiving cash and providing cash and so on. With regard to the issue of financial advice, which was long the role of the local bank manager, how have you acted to maintain that service availability in areas where you have gone away from the full branch representation structure?

Mr Jennings—With the specialisation that has happened in agribusiness, business banking, and banking and financial services, we have tended to congregate our expertise into regional financial centres. Those specialists have basically got a franchise, so they work a much larger district which includes a lot of the smaller districts and so it is like a hub-and-spoke arrangement. So we have extensive coverage and they will go beyond that. So, if there is a cattle farmer that needs help way out the back of Alice Springs, there will be somebody from Alice Springs who will organise somebody from somewhere else to go and see the farmer or meet up, but they will certainly get access to that specialised advice. Country Business Direct, which is our telephone based offering, is also a choice which the customer has. They can just pick up the phone and they know that they have got country people, country bankers, that understand the landscape and the issues. Beyond that, we have also been very active with seminars and bringing expertise to small businesses. We have a series called ‘Beyond Survival’, which is an intensive two-day workshop, and we run that in many locations—

Senator BRANDIS—Not very optimistic—‘Beyond Survival’.

Mr Jennings—It captures the reality for a lot of people. It is a great workshop that is very popular. We have taken that expertise to another level. We have trained people in the United States to pick up the expertise to run that. For instance, two weekends ago Graham ran a session in Rochester, which 25 per cent of the businesspeople in Rochester attended. The ACC’s chairman in Rochester, Graeme Gledhill, came to us and said: ‘I’ve heard about your ‘Beyond Survival’ seminars. Could you help us with small businesses that are drought affected in terms of strategies and financial help for how they can work through the drought?’ We have tailored and built our seminars specifically for that situation and we are about to run one in the central wheat belt in Western Australia in Merredin.

We are piloting these seminars. They are a way of getting information and expertise, beyond how we have traditionally done it, getting it right to the people who are wrestling with problems on the ground. The beauty of that is you are bringing them really good expertise. I have been in Westpac for 30 years, and one of the issues when you have a huge network is maintaining the level of expertise across so many outlets and so many points when there is constant change. Things like seminars, using the Internet and so on are smarter ways of getting expertise to more people, so we are very much going down that path. I am speaking for Graham here; it is very much in his charter.

Mr Paterson—I concur with Graham. It is really important to get out there to the people. In the last eight or nine years I have managed two operational businesses for Westpac: one in South Australia, which was subject to a lot of change prior to the Hawker committee, and one in Tasmania for the last 4½ years—where, since Westpac Regional Banking drew a line in the sand, there has been a totally different way of running business, a recognition of, as you said before, some of the effects on the local community. I can say first-hand that it has been a much more pleasurable environment in which to manage a business where that change, the education and feedback to customers has been very proactive.

CHAIRMAN—Given Mr McLean’s experience that I referred to earlier, how assured are you that people are able to fairly readily, fairly easily get through to talk to the person with the sort of expertise they need and the local knowledge? As he said, he was talking to someone in Queensland—this was only about getting a credit card—and Tasmania. What is the channel to make sure that the people who need financial advice are actually getting through to someone who has some local knowledge and knows what they are on about?

Mr Jennings—There are a number of things that we do. This publication will go out to lots of customers later in the week. In the back of it are all the contact points for regional Australia—where we are located and the regional managers; there is a whole list of phone numbers there. We are very clear that my job is not only to set a direction and a strategy for this business but to be the advocate in the bank for these issues in regional and rural Australia. So I take a close interest in issues such as Mr McLeans’s, and we champion that within the organisation, as we do with issues to do with Internet banking access, for instance. So that is one way. Obviously, there are a lot of people on the ground who are very active in their communities; there is a strong network of contact out there. People are very active in running seminars, as I have mentioned. We have other seminars—‘Let’s Talk’ seminars—which are specifically targeted at the elderly and disadvantaged in terms of how to access and use the bank to their advantage. We also actively contact our customers and offer banking reviews. We are in a process of continually contacting both personal and business customers and talking through how their banking is operating. Fees and products have changed a lot; are they doing it as well as they can? We are coming at it from a number of levels.

We have a lot of room to improve. I will be the first to admit it. We have come a long way from the nineties to where we are now, but this is clearly a journey. Getting communication out there, trying to differentiate ourselves, saying we are open for business and willing to help is a big challenge. We are actively working on it. The drought relief work that we have done this year is very much about saying to customers, ‘Come and talk to us; we are willing to help.’ There has been a perception that has been built up over a decade or more which has not been in that space. I am aware that turning that around is not turning a switch but consistently walking the talk and going down the path we are headed down.

Senator MURRAY—You said that you have been in the banking business at Westpac for 30 years. How long have you been in senior management?

Mr Jennings—I studied in the United States for a year, in 1991. From then on, I have been in regional management, which is managing a business out in the field, or I have been in a head office role, so I have run the bank’s business products, business marketing. I have helped put in place a whole part of its branch network strategy, and I have had senior roles in business banking line management.

Senator MURRAY—In the last 10 years?

Mr Jennings—Yes.

Senator MURRAY—In that case, can you tell us how different the pressures on senior management are from a banking perspective in terms of the cost and profit pressures that drove the reduction in branches? How different is the climate now? What are the pressures that you face?

Mr Jennings—That is a good question because, having run the bank’s product portfolios in particular, I could see that very starkly with the increase in competition levels and the compression of margins. You could extrapolate that in terms of where it was heading. So that was an interesting period for me in the mid-nineties—to see bank products which previously had four and five per cent margins in a relatively high interest rate environment and where there were a lot of products that did not actually pay customers interest. We are in that transition.

The competitive pressures have been huge. As that has happened, we have seen the margins come down and we have also seen, in a low interest rate environment and where we pay a lot more people interest now—and very competitive rates of interest—a total change in the financial dynamics of how the bank operates. A lot of those new entrants, as you would be well aware—and a lot of people are in the marketplace now, particularly the home mortgage market, for instance, which was solely the domain of the banks at one stage—do not have those big branch networks and those 2,500 people out there providing face-to-face service. They have a very different style of business. That is what we are competing against, and we are competing on a relationship basis. The cost pressures are very real in terms of how you run a business in that environment.

I know, firmly, that when David Morgan came on board as the CEO and we started to put in place corporate social responsibility policies the ground shifted at Westpac. I am not saying that we do not have very strong financial disciplines and we are not managing that tightly—we certainly are—but we have taken on a much broader charter in terms of what our responsibilities are.

Senator MURRAY—How much more conscious would senior management be now—compared with, say, the early nineties—of market pressures, share prices and quarterly reports, the market commentary?

Mr Jennings—I would say that all aspects of the business—the customer service, the community work, the staff issues and the financial issues—are in their face every day.

Senator MURRAY—The reason I ask these questions in this direction, and my colleagues have probably already picked up why, is that we, as a group, sit on other committees—for instance, the Joint Committee on Public Accounts and Audit, Senate economics and finance committees and so on—and we cover a range of interests, and one of the things that has come home to us in other committees is that the market psyche and the business psyche have become much more short term. The psychological commitment to trying to maximise a profit has, to some extent, been at the expense of adding value in the long term—in other words, it is very much committed to short-term returns. Short-termism, and this is a worldwide phenomenon, has the effect of cutting costs now, taking a profit now, avoiding the building up of cost centres with a long-term return if, in the short-term, it has a negative effect.

I am interested in whether, in the programs you are outlining, you are bucking that trend—or trying to buck it, or whether you can buck it. Are there means whereby the bank accepts not only a community service obligation and cross-subsidisation to some extent but also a perception that you are committing yourself in the long term? I wonder how the bank executive deals with these different pressures and what their attitudes are.

Mr Jennings—From my experience at Westpac, our chairman, Leon Davis, and our CEO, David Morgan, both go down the line of acknowledging that there is a corporate responsibility. Other CEOs of other organisations, as you are well aware, are still debating whether big organisations have a corporate social responsibility. So there are two distinct camps around the world. We have seen the impact of past attempts to reshape organisations very quickly. David Morgan said—I remember the words, and I use them often—that you cannot shrink yourself to greatness. That says it all to me. I am proud to work for an organisation that I think, particularly in the last four or five years, has really started to grapple how you tackle the broader corporate social responsibilities that you have. I have heard David Morgan talk a number of times about how organisations like ours—and the Australian system is so weighted with big financial organisations—are pervasive in the community and there are major consequences from our actions.

Senator MURRAY—Politicians and policy makers world wide are battling with how to restore a better relationship between the business community and the citizens and residents of a country. That has a practical effect. For instance, there is a debate in this country as to whether we should introduce statutory quarterly reporting, because it emphasises short-termism. As a parliament and as a country, we support continuous disclosure, but it makes people very edgy about investments which may be less tangible, less easy to measure, where the return is different, intangible. The ability to resist market and economic and legislated forces world wide is very difficult. I am intrigued by anyone who thinks that they can push against it.

Mr Jennings—The costs of complying with those types of processes are considerable as well.

Senator MURPHY—Overall, you would regard your rural and regional banking services as either a net cost or a lower profit than other areas of your banking operation, wouldn’t you?

Mr Jennings—When the bank said to me, ‘Graham, we want you to take on having a look at our regional business’—you need to understand that no bank had organised itself that way previously; from what I see in the marketplace, only Telstra Country Wide and we have that type of organisation, and I think it is a corporate model that is worthy of more support in terms of how it attempts to partner with and engage regional Australia—one of the first things I did in setting it up was to try to understand the financial dynamics of it, because it was going to fall in one of two ways: it was going to be sort of a charity case or it was going to stand on its own two feet financially. For me, if it stood on its own two feet financially, I could then go back to the bank and say: ‘This is the first time you’ve seen this balance sheet and profit and loss of your business in regional Australia, and it’s terrific. It’s a financially strong and viable business.’ That is a great way of very quickly changing people’s perceptions to where they do need to be shifted, apart from any other commitments that have been made. We have worked on the basis that, if it is financially sustainable and strong, it is going to be valued by the shareholders and other executives as well.

At the same time, if we can be doing the things we are doing to improve working life for our staff, improve the services for our customers and work with communities, as we are doing, it is a win-win for everybody. That has been the thinking we have applied from the outset, and I think we are making a lot of progress. Since 18 months ago, our staff morale in regional Australia—you have to imagine how it would have been, say, six, seven or eight years ago—has consistently been noticeably better than the Westpac average. For the last 18 months it has consistently been better. That is because the staff can associate with the direction of looking after regional Australians by trying to listen to and work with them.

The customer experience is better in regional areas on average. We still have room to improve, but on average it is a better experience, for a whole pile of reasons that I have already alluded to. So there is a way to make this thing work, and here is a way to partner, even though you are a big organisation. I have been very attracted to the Landcare organisation, which I have just joined the board of. That is a great example of how big business, government and local communities are being facilitated to partner. I think those models deserve a lot of support.

Senator BRANDIS—Mr Jennings, there is a reference in you submission to your social accountability charter. Is that this document?

Mr Jennings—Yes. That is the social accountability charter and policy and practices.

Senator BRANDIS—I see that one of the propositions stated in it is to adopt the Australian Bankers Association branch closure protocol standards. I want to explore that with you for a moment, if I may. I accept, and I think that any sensible person must, that there will come occasions when there just is not the volume of business to justify maintaining an operation, at whatever level, in a remote area. But what has struck me in hearing evidence at earlier hearings of this committee is the 12-week standard for community consultation. It strikes me intuitively to be a very brief period of time, particularly since one might anticipate that the more remote the area of Australia the more it will be at risk of having branch closure or a downsizing from a branch to an in-store operation, and it will be correspondingly more difficult for people to make other arrangements. Could you comment or just speak generally to this issue of the way in which this process of community consultation operates and the sufficiency of the 12-week standard?

Mr Jennings—In all the work we have done since regional banking has been in place, within stores and so on, we had always committed to the 12-week period of talking to communities about alternatives, where we felt the need for change. In reality, that has often been longer. Often when you start that process you find out other things that are happening and you start talking about other options. So in reality, that has been a lot longer, and we have made efforts to make sure we are speaking to people at all levels—local community, state members, federal members—about where we stand and the things we are thinking about.

Admittedly, at that point in time we had two solutions. We wanted to maintain face-to-face banking either as a traditional branch or an in-store branch. So obviously the work we are doing at the moment is important to make sure, for the future, that we have long-term sustainability, particularly with community-style outlets that are more like a rural transaction centre or a telecentre type of location. But at that point in time there were two alternatives, and that is basically what we talked through as well as what else we could do with the local communities.

However, when those discussions are prolonged, they have another impact—people just want to know where they stand, basically. Word gets around and it starts to develop a life of its own, which becomes equally difficult to manage. My experience has been that 12 to maybe 16 or 18 weeks is a good period for talking about options and what we should be doing. But, at the end of the day, people are looking for decisions and leadership.

Senator BRANDIS—Of course, this is not a period of consultation in advance of a decision being made but a period of consultation after a decision has already been made. It is really in the nature of assisting customers—in particular, local businesses—and advising them how to adjust their affairs to what the bank has already decided to do, whether it is to close up entirely or move from a traditional branch to an in-store operation.

Mr Jennings—To an extent. We go through an extensive process of looking at the performance of the branch, the local demographics and the business opportunities.

Senator BRANDIS—But that is an internal process, isn’t it—there is no such thing as a community consultation about whether or not a branch will close, is there?

Mr Jennings—When we put all that information together, we go and say, ‘This is how it looks from the work that we have done, and we need to talk about options and where to go from here.’ At that point we have not definitely, finally, decided on the path forward and we are still seeking further information and looking at options. But it is fair to say that at that point we have gathered a lot of information and done a lot of work. In the processes back in 1996-97, for instance, even the staff on the ground had input into business plans and so on, which we used to get information about what was happening in the local community.

Senator BRANDIS—But would I be right in thinking that, by the time this 12-week period begins, generally a decision has already been made at least in principle to close or downgrade the branch?

Mr Jennings—We are probably reasonably clear in our minds as to what we believe is the right solution for that location, unless somebody brings some further information to the table.

Senator BRANDIS—Are there instances where the product of the 12-week consultation period is a reversal of that decision?

Mr Jennings—Yes, certainly. There would be—I am trying to think of the number—eight or 12 sites in Western Australia which are reduced-hours sites. When we got in and had a look, we decided the consequences of closing them would be much greater than we had thought. In talking with the community, we came around to the idea of reduced hours. So we left traditional branches there but changed the working hours. Before that, we were probably going in thinking the in-store option was a better solution for those sites. That is one example—there are some others—that definitely sticks in my mind. There would be about eight sites in Western Australia, I think, that are in that space.

Mr Paterson—Senator Brandis, the other process we go through in selecting a suitable in-store partner is to seek a lot of feedback from the community, because it is very important for them. I remember an instance in Flinders Island in Tasmania, for example, where we actually had three or four parties interested in being in-store partners. The only equitable way to resolve that was to put it to a vote by the community, which we did. The community overwhelmingly selected a partner—and it was not who we originally thought it would be. We thought the local council was the most appropriate partner, for a variety of reasons, but overwhelmingly the community came back and said they wanted their bank with the local post office operator.

Senator BRANDIS—By the way, are the in-store partners always instrumentalities, or could they be the local newsagent or the local pharmacist? And when they are private operators, are they paid a fee by the bank?

Mr Jennings—That is correct—and we provide their training, obviously, because of financial sector reform requirements.

Senator BRANDIS—Thank you.

Mr CIOBO—I commend Westpac for some of the initiatives you have highlighted. I think it is good and worth placing on the record that you have clearly taken some steps forward in terms of being recognised as a global market leader, your social accountability charter and those types of things. What I am interested in, though, is the statement you make at the opening of your submission:

> Following the emergence of clear anti-bank sentiment in the Australian community, Westpac subsequently sought to identify and address those issues of equity and social justice which our stakeholders considered integral to the continuance of our social licence to operate.

Could you briefly—given the time—outline ways in which Westpac has contributed to that antibank sentiment insofar as it pertains to regional and rural Australia?

Mr Jennings—In responding to that sentiment?

Mr CIOBO—Not the measures Westpac have taken to correct that sentiment but the measures you took that you believe were the drivers for that antibank sentiment. What do you understand to be the reason why people—

CHAIRMAN—‘What is your culpability?’ is what Mr Ciobo is asking!

Mr CIOBO—No, I am not asking about culpability. I am just wondering what the messages that you were receiving were, Mr Jennings.

Senator BRANDIS—He does not say the antibank sentiment was due to Westpac!

Mr CIOBO—It may not be. Westpac may not be culpable at all—I do not know. I am interested to know Westpac’s view.

Mr Jennings—Quite clearly, there was at least a decade, if not longer, where all these changes were happening to products, outlets and people—our staff. It was not just Westpac; it was all of the banks. There were mergers of banks, so there were integration processes to bring banks together. There was a massive amount of change, and that impacted on everybody. It impacted on the staff, the customers and the communities. I do not know of anyone who would stand back and say that that was handled extremely well. With the wisdom of hindsight, it could have been done a lot better. I would like to think that in the last three or four years—certainly, a number of people in my team who were doing other things at the time were bystanders to that process up to a point—we have learned a lot.

Mr CIOBO—So what are the drivers of change to which you refer—for example, the Wallis inquiry in the mid-nineties and the rationalisation of the traditional bricks and mortar structure towards the various types of distribution channels that you speak of? What is driving all of this? You talk about a ‘social licence to operate’; if the information is not commercial-in-confidence, would your social licence go so far as to incorporate the operation of a bricks and mortar branch that was not profitable, not yielding a return, or is it not quite so generous?

Mr Jennings—When we use the words ‘social licence’—which comes back to Senator Murray’s comments and questions—we are really talking about being in a position in the long term where regional Australia believe you want to be involved in what they are doing out there. Not being in that position will cost you, as you are basically losing your social licence. So it is a long-term view that we are responding to: the need to be healthy, growing and in partnership with regional Australia in the long term.

Mr CIOBO—A lot of the concerns that are expressed come about through consumer inertia—customers who are unwilling to adopt new methods of banking. From Westpac’s perspective, how many of those concerns are there compared to how many are legitimate—perhaps ‘more legitimate’ is a better way of expressing it—and concern things like the inability to have that face-to-face contact that they consider a requirement for you to calculate, for example, risk models and those types of things for their businesses?

Mr Jennings—Good question. At the end of the day, they are all concerns, and whether we view customers as slow to change or as not embracing the new technologies is irrelevant. That is the approach we are taking now. We need to drill into those concerns and continually ask people what they are looking for. We went through a process last year talking to our customers about our in-stores and asking: ‘What concerns you about our in-stores? How can we make them better?’ They told us a number of things that they would like to see improved, which we followed through on. We have improved them, and now they get additional services. So that is one group of customers. We are continually drilling into the issue of what is affecting our customers’ disposition towards our organisation—what is affecting their view on the level of service. It is only by asking our customers and drilling into those concerns that we are getting there. It is no good our having a view—

Mr CIOBO—Isn’t that just good marketing? Aren’t you essentially saying to the committee, ‘That is part of what constitutes good marketing but it does not necessarily go to the core of customer disenchantment with the provision of services in rural and regional areas’? They may be more satisfied where they retain a branch, but fundamentally that does not address the root cause of whether it is economically viable for you to retain a branch there, does it?

Mr Jennings—A whole layer of issues have built up over a long period of time which affect how people view an organisation like Westpac, and other major banks. So it really is a process of trying to dig through what are the ‘hot buttons’ and what are the issues at each level. Major farmer and business customers, for instance, have a whole set of different issues that concern them, which you have to work through. Different groups of customers have different issues. Unfortunately, there is not a silver bullet or an easy solution, and even if it was economically possible, I do not think putting bank branches in every town in Australia would be a solution. There would still be a lot of issues that people have in terms of expectations.

Mr CIOBO—In your submission you speak about, for example, Wagin, in Western Australia, where the local shire leased your premises for a peppercorn rental. You also make reference to Wilcannia, in New South Wales, where again there is a peppercorn rental, and Leitchville, in Victoria, where it looks like they purchased the former bank premises. With respect to those three instances in particular, is Westpac’s contribution to the retention of banking facilities the provision of the facilities for peppercorn rental, or do you have an ongoing interest other than simply providing the premises?

Mr Jennings—We are providing the premises and our partner is operating an in-store in the premises. We are paying under a commercial arrangement to maintain that as well.

Senator BRANDIS—I want to ask a fuller question arising from something that was at least implicit in one of Mr Ciobo’s questions. Is it still true to say that there is an identifiable rural culture in this country when it comes to the expectations of banks and, in particular, the role of the local bank manager?

Mr Jennings—A lot of customers now value the expertise and specialist skills of an agribusiness or business banking specialist sales and relationship force such as we have. Once customers have experienced that level of expertise and experience, they are a very happy group of customers.

Senator BRANDIS—What I am really getting at is that one hears anecdotally from one’s older relatives who come from the country, for instance, that in rural towns the role of the bank manager as a community leader is roughly like that of the local policeman and the headmaster of the local school or perhaps even the parish priest; that there has been in this country, at least in the past, and particularly in rural towns, an expectation of almost a sense of trusteeship by the local bank manager—and, by extension, the local bank—as a community leader and somebody who would be regarded as a custodian of community interests. I suppose in modern parlance that translates a bit into the idea of a social charter. Do you find that? If you do, do you find that the conservatism of rural people in being reluctant to let go of that expectation is a problem?

Mr Jennings—What I do know is that where my managers take a leadership role in the community—and I have a lot of them out there—the community loves it. So we are encouraging our managers to very actively reclaim some of that ground—to lead community activities and get actively involved in things locally. I have numerous example of where that has now occurred, to take back some of that ground they have let go.

Senator BRANDIS—So you think it has declined but is now, with your encouragement, re-emerging?

Mr Jennings—Yes, absolutely.

Senator BRANDIS—What do you think, Mr Paterson?

Mr Paterson—I would agree with that. Having once been one of those old bank managers out in the rural environment, the expectation in the community in those days was that you did everything for everybody. The reality of today is that a lot of specialisation is required. With some of the legislation that is in place, you are not able to give general advice on every matter but only on the things you are trained and accredited to give advice on.

Now, instead of one bank manager in a lot of those communities, we have five or six. One might be resident in the town and very actively involved in the social network of the town, but they are supported by a number of specialists, who either live in the town or visit the town on a regular basis to provide specialist advice to the customers in line with their needs. The issue is getting acceptance and understanding of the changing demographic. One of the other changes has been that, quite often today, the bank manager in the town is not a 50-year-old male. Often they are a 40-year-old or 35-year-old female. For some of the people in those communities, that is a change they are still coming to grips with.

CHAIRMAN—Can I please follow on from that? The financial planning industry is, in a sense, a relatively recent phenomenon. To some extent, it has perhaps taken over the role that used to be fulfilled by a person’s bank manager and accountant in combination. Given what you have said about encouraging bank managers to get back into the community and fulfil more of the role they had in the past and given the recent somewhat negative report on the financial planning industry, do you see a potential for people to revert to their bank manager and their accountant as their principal source of advice rather than financial planners?

Mr Jennings—There are two answers. We are working to upskill staff in our branches continually and to comply with the financial sector reform act. We are looking to put more and more skill in continually. In this last year, we had an extensive program right across our branch network to lift the skill levels, and that is ongoing. We are continually facilitating our staff to do more, within the bounds of what they legally can do. At the same time, financial planning and advice is such a specialised area that you do need that level of expertise. At the end of the day, I know Westpac had some people—more than any other organisation—reported as giving top level advice, and we had no people in the bottom level reported. Whilst we always have room to improve, we are working hard in that industry and we do help a lot of people every day with a lot of financial planning advice, through specialists and through face-to-face contact in our branch network.

Senator BRANDIS—What is your policy about rotating staff from rural and regional branches in to city branches? Do you tend to identify people with regional and, in particular, agricultural experience and leave them in the rural and regional branches?

Mr Jennings—Since we have established regional banking, we tend to identify more strongly people who have a passion for living and working where they do. That may bridge states. One of the great things about regional banking is that, if somebody loves working with broadacre farmers, they are happy to do that in Western Australia and in western New South Wales. We have worked hard to slow down the old-fashioned transfer of people—they used to have to transfer to get an extra few dollars, a promotion. We encourage people to stay and to live in and be part of the community for longer. That fits with the social needs their families have and their partners have in relation to their own employment. It has been win-win. Slowing down transfer rates and tapping into people’s passion for the place they come from and live in builds stronger relationships with customers.

Senator BRANDIS—I suppose that is particularly the case for country people, who might feel the world is changing a bit too fast and the services they are getting from banks are changing a bit too rapidly. It would be a good policy, and a reassuring one, if they were able to continue to deal with the same people year after year. Do you find that?

Mr Jennings—Exactly. We are going to Rochester, Bendigo later this week, where we have staff who have been working in the Bendigo bank branch for in excess of 30 years.

CHAIRMAN—A submission from the Catholic Women’s League in Tasmania referred to a mobile bank system operating in the United Kingdom. According to their submission, this works in a similar way to mobile libraries and services rural areas. Might that be applicable to rural and regional areas in Australia? Would that be a feasible option to provide banking services? What would be the impediments to that?

Mr Jennings—To be quite honest, it is something we have not explored in any depth at all, although I have heard of the concept, so it would only be off-the-cuff remarks. I can see the upsides and downsides.

CHAIRMAN—What can you see as the upsides and downsides?

Mr Jennings—It sounds like a bit of a nightmare securitywise. Fundamentally, we have facilities available through the ABA where we take some technology and show people at a local level in seminars and so on how to use bank technology but physically taking the cash somewhere and doing the transactions. It happens more on an isolated basis with specific agency arrangements rather than on any sort of widespread basis.

CHAIRMAN—Finally, I want to raise the issue of the smartcard. During the House of Representatives inquiry in 1999, there was discussion about a smartcard and that committee recommended that Centrelink give priority to developing and implementing a trial of a smartcard product. But it does not seem to have arisen in this inquiry. There does not seem to have been any reference to it. What has happened to it? It seemed to have some promise. Has it disappeared from the landscape?

Mr Jennings—It is not my area of expertise. I would be happy, if you wanted to get a separate report on the state of the smartcard in Australia, to facilitate that. I do know that the infrastructure that needs to go into place to establish a smartcard system is extensive. It is a big piece of public infrastructure to have all of the players using a system. Quite frankly, at the moment the alternatives that are available to customers for making payments are huge. There are millions of transactions being facilitated every day with the choices we have available. It has been trialled in some areas—I am aware of that—but it has never got to the next step in terms of the infrastructure requirements that surround setting those systems up.

CHAIRMAN—Can I also raise the issue of where there is a total closure of face-to-face banking facilities by a bank branch or giroPost and, therefore, the only option for a person who wants to retain their link with that particular bank is to do it through an ATM, possibly having to use another bank's ATM and thus incurring the additional fee that results from using another bank's ATM, if that is all that is left in their town. Can you see any light at the end of the tunnel for customers who want to stay with, say, Westpac but have no Westpac facility in their town getting around the 'other ATM' transaction fee if they have to use another bank's ATM for their transactions?

Mr Jennings—Obviously, we have not closed any locations that we have withdrawn from in the last four or five years to create that situation. On the other side of that, we ensure that, where we do not have ATMs available where we have facilities, customers only pay an electronic transaction fee level; they do not pay for over-the-counter service in excess of their transactional levels where they start to incur bank fees. So we have made some concessions on that side. In relation to the issue of customers of Westpac that only have the choice of another bank's ATM in certain locations, it is not an issue that we have visited recently, but we are happy to take that on as an exercise and have a look at it.

CHAIRMAN—There being no further questions, I thank you, Mr Jennings and Mr Paterson, for appearing before the committee, for your submission and for your answers to our questions.

[10.22 a.m.]

HARLEY, Mr Hugh Douglas, Group Executive, Retail Banking Services, Commonwealth Bank of Australia

MORGAN, Mr Stephen Gerard, Chief Manager, Agribusiness, Commonwealth Bank of Australia

PAREKH, Mr Mukesh Amarchand, Executive General Manager, Infrastructure Services, Retail Banking Services, Commonwealth Bank of Australia

CHAIRMAN—I welcome the representatives of the Commonwealth Bank. The committee prefers that all evidence be given in public, but should you at any time wish to give any part of your evidence in private then you may request that of the committee and we will consider your request to go in camera. The committee has before it your written submission, which we have numbered 124. Are there any alterations or additions that you would like to make to the submission before we proceed?

Mr Harley—No.

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

Mr Harley—The bank appreciates very much the opportunity to be here today and to participate in your inquiry. With over 130,000 points of presence and an individual retail base exceeding nine million customers, the Commonwealth Bank is at the forefront of the provision of financial and banking services to the Australian community. As you are well aware, the distribution of banking services has undergone significant change as financial institutions have responded to changing customer demands, demographic shifts and technological advances to improve access and reduce the overall cost of banking services to our customers.

The first issue I would like to address is branches. When the government of the day privatised the Commonwealth Bank, it exposed the bank more fully to those competitive pressures, and in responding to them we have become a more efficient and service oriented institution. Nevertheless, the confluence of environmental factors I mentioned above has ultimately led to a reduction in the number of branches, an experience that, as we know, has occurred across the industry, in metropolitan as well as rural areas. The reduction in branch numbers was commented upon within the recommendations of the Hawker committee inquiry into regional banking services in 2000. It noted:

> There is a danger that any attempt to force retention of traditional financial services infrastructure on the industry is likely to constrain innovation and competition. As such, this is not in the long-term interest of the communities in question.

We believe that point is valid, and last week’s Points of Presence data released by APRA confirm that the Commonwealth Bank is indeed increasing its services to rural, regional and remote communities through a variety of distribution points such as ATMs, EFTPOS machines, Woolworths Ezy Banking and giroPost. In our own case, our overall number of points of presence has increased by 1.7 per cent, to over 130,000 in the year to 30 June 2002.

Significantly, when you look at the statistics on a per capita basis, we have more branches in rural areas than in urban areas, and more than double the number of agencies per capita. Recently, our presence in remote and in very remote areas, using APRA's ARIA methodology, has increased, up from 347 points to 354 points, although it must be recognised that the number of branches has remained steady in those areas at 29. It is also important to note that, through our agency network in remote and very remote areas, the bank serves Indigenous communities more comprehensively than any other financial institution. We are currently engaged with Reconciliation Australia in discussing ways to provide further service options to Indigenous customers.

The Commonwealth Bank believes that it has now reached an equilibrium point in branch distribution terms. We announced in August 2002 that we would maintain the number of branches around the level of 1,000 Australia wide, with roughly a third of those being located in rural and regional areas. I should stress that it is a watertight commitment that there will be no reduction in branch numbers below a thousand.

I would now like to turn to educational support for banking services. We realise that the mere provision of access to alternate distribution channels is not an end point. New channels need to be supported by educational initiatives to overcome cultural and generational reluctance to use electronic banking facilities. For instance, the bank has conducted more than 2,300 Banking Made Easy for Older Persons seminars to educate customers, particularly older customers, about EFTPOS and ATM banking. These seminars focus on EFTPOS, ATM and telephone banking services and are carried out across the country, including in regional areas.

As well, in September 2002 we provided $5,000 in e-learning grants to 70 different primary schools to execute programs to advance e-learning skills and capabilities among young Australians. All primary schools in Australia have the opportunity to submit an application for a grant. Schools from rural and remote areas such as Largs Bay in South Australia, Lockhart River in Queensland, Trundle in New South Wales, Clifton Creek in Victoria, Pingrup in Western Australia, and Alice Springs were all recipients of those $5,000 grants, and we will run that program again this year.

Through this program we hope to foster understanding and interest in the wonderful possibilities of the Web, particularly in remote areas. In a similar vein, we launched the highly successful DollarsandSense web site in 2002. It receives 3,000 hits per week during school time. This is a program to boost the financial literacy of Australian youth aged from 14 to 21. It has special attraction for those in rural and regional areas with Internet access. The web site is a significant tool that young people can use to learn more about budgeting, volunteering, saving, investing and spending in a generic sense, without product references or sales materials. The DollarsandSense web site also contains a curriculum library and a teachers resource facility. Another important contribution we make is through the provision of most young Australians' first banking experience. Our school banking service covers over 3,100 primary schools around Australia, and more than one-third are schools in rural and regional Australia.

Finally, I would like to turn to support services, mentioning the other services we provide that are tangential to our core financial services but are still important and reflective of our commitment to regional and rural customers. The bank's CEO, Mr David Murray, said in November of last year that the current drought may be one of the most severe in our history and that the bank 'will be in the rural sector for the good times and the bad'. The bank provides special assistance in drought declared areas, including additional carry-on finance to meet short-term needs such as stock feed and agistment, restructuring of existing loans free from additional related fees and charges, provision of interest only facilities during the drought and the waiver of prepayment charges for customers who need to draw down from term deposits ahead of maturity date. We genuinely encourage rural customers with financial concerns to contact their local branch or agribusiness specialists so that we can provide financial services to assist them through this difficult period.

A concrete demonstration of that and, in particular, of bank staff involvement in the rural sector was the Radio 2UE Rain Train appeal last year. The bank opened its branch network to receive donations of foodstuffs. With the support of New South Wales Transport Minister Carl Scully these goods were transported by rail to Narrabri for distribution to needy families affected by the drought. Virtually all of this work was done by staff on a voluntary basis with, of course, the bank's support.

To aid victims of the recent bushfire devastation in Canberra the bank established a bushfire relief appeal and contributed $100,000 to it. For those who suffered the Canberra, Sydney, regional Victoria and New South Wales fires the bank established a special assistance package that included certain fee waivers, postponement of credit facilities, loan restructuring and prioritisation of insurance claims. I mention these matters because I believe they demonstrate that the Commonwealth Bank has a deeply held commitment to regional and rural Australia that translates into the types of services and support programs that go beyond the bottom line. Our business is to serve our customers as best we can within the economic and commercial constraints that operate in a competitive market. Our aim is to formulate the most efficient mix of distribution channels that will allow us to continue to serve our rural, regional and remote customers. On that note, I thank you, Mr Chairman, for the opportunity to be here. We would be delighted to take any questions, and I would ask that they come primarily to me.

CHAIRMAN—Thank you very much, Mr Harley. I asked the representatives from Westpac a question in relation to standardisation of points of presence. I noted in that question that the Commonwealth Bank referred to some 133,000 points of representation and Westpac referred to 378. What is the basis of your definition of points of representation, and is there is a need to standardise that?

Mr Harley—We are definitely of the view that the standard guidelines that have been issued by APRA are the right basis for doing that, and to the best of our ability we comply with those guidelines. I think the guidelines are still worded in a way that does allow different parties to interpret them in different ways, so we would encourage any encouragement from you to work with APRA around making sure that the definitions are watertight. The 130,000 for us includes our very large EFTPOS network which is roughly twice as large as our next competitor.

CHAIRMAN—You expressed the view that the giroPost service offered through Australia Post is the most effective and appropriate means of sharing bank facilities and obviously is an important part of your service network. The Post Office Agents Association in their submission have advised us that Australia Post currently prevents licensees from having ATMs in their premises. Are you aware of that and would you support giroPost being able to have ATMs?

Mr Harley—I will check with Mr Parekh on that.

Mr Parekh—Going back approximately 12 to 15 months ago, we had discussions with Australia Post corporate on the provision of ATMs. We asked them to come back to us with any specific sites or information they had around this facility that they wish to introduce. To date, we have had nothing concrete back from them. From an agency post office licensee point of view, which I think you refer to, it is fair because Australia Post corporate decides what services are provided through the network, but from an Australia Post corporate point of view we have had nothing concrete to pursue that particular initiative.

Mr Harley—The overriding point for us is that we see our relationship with Australia Post as absolutely critical to our presence. It is a relationship that goes back to 1916. Many other financial institutions are involved with the giroPost network which covers roughly 2,900 outlets at post offices where there is the electronic facility. In addition, the Commonwealth Bank has a unique relationship with Australia Post that allows us to provide services through another 1,000 post offices where there isn't the electronic facility.

Senator BRANDIS—Is that exclusive to the Commonwealth Bank?

Mr Harley—Yes, Senator Brandis, it is. There is the giroPost relationship, which relates to electronic facilities, and, in addition to that, our unique relationship with Australia Post allows us to provide services through the other 1,000 post offices that are not wired up. That includes the provision of passbook services. That is part of the reason why our coverage in very remote and remote areas is greater than that of other financial institutions. Typically, that is where the post offices that do not have electronic facilities are. We see our involvement with Australia Post as critical. We also clearly see ATMs as being critical to the provision of convenient banking services, and so we would welcome any opportunity to put to those two together, over time, and extend the reach of our ATMs.

CHAIRMAN—Are you aware of some disagreement between Australia Post and the Post Office Agents Association Limited?

Mr Parekh—No, we would not be party to that. If there is disagreement, we would not know about it.

CHAIRMAN—It seems from the Post Office Agents Association Limited submission that they are keen to have ATMs, but you are saying Australia Post itself has not moved on this.

Mr Harley—I am not aware of the history of that debate. I can contact Australia Post and raise that issue with them. We feel we have a very strong and productive working relationship with Australia Post.

CHAIRMAN—Do you feel you are able to provide the full range of your banking services, through your Australia Post links, without ATMs?

Mr Harley—Absolutely. Customers can access cash using either a traditional passbook account or what we call a key card account—that is, through a plastic card. Both facilities are there.

CHAIRMAN—How does the fee structure for that compare with using an ATM?

Mr Harley—It is absolutely consistent. For the customer, there is no difference across the board.

CHAIRMAN—Perhaps you would like to advise the committee what comes out of those inquiries you make with Australia Post. You can take that on notice.

Mr Harley—Certainly, Senator.

Senator MURRAY—The committee has been provided with a set of statistical and other documents, which I think was made available to you. It includes a letter, dated 10 October, from Gilbert and Tobin lawyers to David Bell, the Chief Executive Officer of the Australian Bankers Association. The letter outlines regulatory impediments to the introduction of shared banking facilities in regional and rural Australia. It strikes me that an obvious recourse, in some situations, is for shared banking facilities to be provided in a single outlet. If there were not regulatory impediments, would the Commonwealth Bank be interested in that sort of policy or is it not an attractive option?

Mr Harley—Our basic approach on this is that, at the moment, Australia Post offers a world-class mechanism for sharing banking facilities. Any developments in that space should concentrate there. It is hard for us to see, when there is already such good infrastructure, both electronic and physical, that setting up an additional infrastructure, on top of that, is going to be the right answer from anyone’s point of view. That is our basic point.

Senator MURRAY—It is open to the committee to recommend that the impediments arising out of the Trade Practices Act be removed or adjusted, particularly for remote and very remote circumstances. But there is little point in doing so if the banks themselves are not interested in that option.

Mr Harley—From the Commonwealth Bank’s point of view, our involvement with Australia Post—which, essentially, is the shared banking facility in the country—is clear evidence of our commitment to work to get solutions that allow for leverage through a common infrastructure. We would welcome options that allow flexibility around some of these regulations, in order for us to provide optimal service to our customers. We think there is already a great infrastructure available for the provision of shared banking services, and we should not go about reinventing the wheel.

Senator MURRAY—For the ABA, representing all banks, to ask a firm of lawyers for this opinion, at some expense, indicates at least an interest in this area. As far as you are aware, do your views reflect those of all the banks or just the views of the Commonwealth Bank?

Mr Harley—I can only speak for the Commonwealth Bank, and I have nothing to add to the comments I just made. We are very keen to look at options that extend the coverage of the provision of financial services to Australians. We think that our relationship with Australia Post is the right way to continue to build in that direction.

Senator MURRAY—It really comes back to Senator Brandis’s question, I think. You have locked up access—and this is not a criticism; it is a commercial arrangement—to Australia Post.

If that access were to change and you did not have the same relationship as you currently have, would shared banking facilities then be more attractive to you as an option?

Mr Harley—I do not understand your question.

Senator MURRAY—If at some stage in the future, for whatever reasons, you did not have the relationship you currently have with Australia Post—which provides you with very good network access—would you then be more interested as a bank in shared banking facilities—which seem, according to the opinion from Gilbert and Tobin lawyers, to be impeded by provisions in the Trade Practices Act?

Mr Harley—I would like to answer that in two ways. The first thing is to look back on the history. Up until 1995, we had an exclusive relationship with Australia Post. That has since been broadened to allow all financial institutions to participate in giroPost. Our relationship has changed very dramatically over the last 10 years. Your question is hard to answer because it is obviously hypothetical in terms of a change to our existing relationship. For us, being an accessible provider of financial services, with as broad a geographic reach across Australia as we can get, is absolutely critical. If events were to transpire such that our relationship with Australia Post changed, then we would clearly need to look for different options to provide accessible services—in which case, some sort of shared banking facility would clearly be an obvious way for us to go.

Senator BRANDIS—As I understand your evidence, in effect your relationship with Australia Post is in place of the shared facilities that other banks seek. You were here for the Westpac evidence earlier. Am I right in understanding that your relationship with Australia Post is the equivalent, for you, to the in-store arrangements that Westpac have?

Mr Harley—There is an overlap but not a one-to-one relationship. In particular, in addition to our relationship with Australia Post, we also have a number of private agency relationships across Australia—over 150 of them.

Senator BRANDIS—Are they like the in-store relationships?

Mr Harley—They are not identical, but they are of the same flavour.

Senator BRANDIS—Somewhat similar?

Mr Harley—That is right. We do not see our relationship with Australia Post as excluding relationships with other providers, but we certainly see it as the benchmark on which we then build.

Senator BRANDIS—I am sorry to intrude, Senator Murray. Can I continue with this line of questioning. Does it cut the other way though? Do you consider, because you have this extensive reach through the Australia Post relationship, in particular, that it is easier for you to close traditional branches in regional and remote Australia because through the Australia Post infrastructure customers in those areas are getting at least a minimal provision of banking services?

Mr Harley—The first point I would like to make is that, as I have said, we have decided not to close any more branches in the Australian community. There is a watertight undertaking, where we are currently represented with face-to-face banking services, not to withdraw those services.

Senator BRANDIS—That is 1,000 traditional branches, is it?

Mr Harley—Exactly. One thousand traditional branches.

Senator BRANDIS—Who is your biggest competitor in rural Australia—is it Westpac or NAB?

Mr Harley—Both are significant competitors in rural Australia.

Senator BRANDIS—Do you know even roughly how many traditional branches each of them have?

Mr Harley—To our 1,000 branches, NAB has roughly 850 branches.

Senator BRANDIS—What about Westpac? I should ask them.

Mr Harley—Westpac has a smaller number—820. So they are both sitting at the low 800s. We are at a little over a 1,000. There is an important point about the history. When we were closing branches, it is fair to say that our relationship with Australia Post gave us a position that not all of our competitors had. In particular, part and parcel of the commitment in that phase was to say that, when we closed a branch, we would never remove the provision of face-to-face banking services for personal customers. Generally, we did that through Australia Post, but in instances where that was not possible, we would enter into an agency arrangement. Where we have been and are no longer, there maintains a face-to-face presence for those services going forward. I have spoken about that commitment.

Mr CIOBO—I want to get this clear and it is probably a vanilla question. Where you have Australia Post relationships and you do not have a traditional branch, are transactions considered to be an over-the-counter transaction in the absence of an ATM point of presence or something like that?

Mr Harley—If it is a simple withdrawal across the counter, yes, it is treated as an over-the-counter transaction. Where it is done through an EFTPOS machine—a little town has a store and someone might go in there to purchase some goods and get some money out and they use the EFTPOS facilities—that would be treated as an EFTPOS transaction.

Mr CIOBO—Again, I am not implying anything in this question, but would you see a need to differentiate between metropolitan customers, who have access to a much larger network in all connotations of the word ‘network’, and those in regional centres, who do not have access to ATMs and the like and are using the Australia Post transaction centres or giroPost? Should there be some kind of leniency in terms of your fee structure for them?

Mr Harley—We have a very clear policy of a standard non-differentiated pricing both through metropolitan, and rural and regional. We differentiate in neither direction.

Mr CIOBO—In terms of the traditional bricks and mortar branch, regional centres and what giroPost offers, could you outline some of the basic differences that an Australia Post shopfront, for lack of a better term, cannot offer that a traditional branch can?

Mr Harley—Our traditional branches vary in the services they provide according to their location, so there is no single answer to that question. In broad terms, the Australia Post facilities provide over-the-counter and related EFTPOS transactions and our brochures and information. They also accept various applications, particularly around opening transaction accounts. Those services apply in many facilities to personal and business customers. Our branches have a broader offering and may, for instance, have a dedicated personal lender. But most of our staff are now quite mobile; they are not limited just to the branch and, where an inquiry arises, they will travel to meet the customer.

Senator BRANDIS—Is that the practice known by some as 'briefcase banking'?

Mr Harley—I think that is a term that has been used by a number of people in a number of different ways. We understand that, as financial services become more complex, no one individual can meet all of a customer's needs. To be able to provide those services, we encourage our staff to be more mobile than might have been the case five years ago.

Mr CIOBO—What is the cost difference between installing an ATM in a regional centre and offering an Australia Post service—is the cost largely similar or is there a significant difference? I am trying to get an understanding of the different inputs you put into your formula to determine the kind of presence you would have in a regional or remote centre.

Mr Harley—Really, the equation always comes down to understanding two things. The first is local demand from the community: the size of the community and their likely level of transaction activity—and that of course relates not just to numbers but to age spread and those sorts of things. The second is the cost of providing those services. For instance, ATMs have to be serviced on a regular basis, and that is often done separately from the provision of other services. We would take all those factors into account to come to a decision.

One point that I should have made in answer to Senator Brandis's question is that in the past—it is irrelevant now but important to understanding the nature of our footprint at present—our policy was that, whenever we closed a branch, we always left an ATM there regardless of any other services provided in the town. So there would be an ATM plus, for instance, an Australia Post or a private agency.

Senator BRANDIS—I am interested in the ABA's branch closure protocol. I know that your bank is not going to be closing any more rural branches, so maybe you can answer my question with a kind of Olympian detachment because it does not affect you anymore, but do you think 12 weeks community consultation is enough? In responding to that, perhaps you might also care to comment on the extent to which, in your observation and experience, these community consultations are genuine engagements with the community as opposed to going through the motions.

Mr Harley—I think that Mr Jennings gave a very fair answer to that question earlier. The history for us is that, prior to the introduction of this protocol 12 months or so ago, again through the ABA, the Commonwealth Bank had the best protocol in that regard. We had a commitment of eight weeks in regional areas, which we thought was appropriate. But clearly in these matters up to a certain point—

Senator BRANDIS—What does 'appropriate' mean, though—does that mean good enough for you or good enough for all the stakeholders?

Mr Harley—It meant that it was the right time to be able to work with the community to set up arrangements that were appropriate for going forward. It certainly reflected our particular relationship with Australia Post. Indeed, part and parcel with that particular relationship was that we always put our people into Australia Post for a period of time to assist both their staff and our customers in making the transition. In that sense, the particular circumstances that made that appropriate for us we thought were appropriate for all concerned. However, last year we also understood that it was appropriate that there be an industry-wide protocol and that not all banks closing branches had the same relationship with Australia Post or the same approach as us. So we supported to moving to 12 weeks. In answer to your other question—

Senator BRANDIS—Before you answer my other question, just on the first question, eight weeks might have been okay for you because you had the Australia Post arrangements which were unique for you. Do you think, absent that network, which the other banks do not have, that 12 weeks is a sufficient period?

Mr Harley—Again, I find it hard to answer that question, not being intimately involved with the other banks' arrangements. What I would say, though—and, as you noted, it is a bit academic for us, given our commitment to going forward—is that we would certainly support a review of that 12 weeks going forward. But, as I said, it is hard for me to judge whether it is appropriate for the other banks, because they have different arrangements.

Mr GRIFFIN—I have no doubt that the arrangements that you had to make when you were doing a closure suited the Commonwealth Bank or Australia Post, but what evidence have you got that it was in keeping with the needs of the community in terms of them adjusting what they had to do?

Mr Harley—As I have said, we all understand that—

Mr GRIFFIN—If you do not feel comfortable answering that question, that is fine. If your position is that it was okay for the bank in terms of what the bank had to do, that is fine. That is a commercial situation; I do not have a problem with that. I am a bit curious about how you have come to the conclusion that that suited the local community.

Mr Harley—No-one would say that there were many instances where a local community was pleased for the local branch to go. Clearly, that is understood. We did genuinely find, though, when we sat down and talked to the community about our ability to provide services going forward—in particular the availability of them through Australia Post and commitments like keeping ATMs and so on—that the community did find the alternatives were pretty good. At the end of the day, that was the reason why we have managed to grow our banking business across Australia over the last 10 years, notwithstanding closures of branches. We have been able to put back and maintain services—albeit with different ways of doing services which clearly involve a change in our customers' behaviours. But the combination of the services that we have continued and working with the local community to help them through the transition has generally meant that, at the end of the day, the response from the community has been okay.

Senator BRANDIS—Perhaps you might decline to answer this on a commercial-in-confidence basis, but what is the legal basis of your relationship with Australia Post? Is it a joint venture or just a contract in the nature of a joint venture agreement?

Mr Harley—It is simply an agency relationship. It is a contract dating back to 1916, which has been modified at different times.

Senator BRANDIS—How often is it renewed or renegotiated?

Mr Harley—It depends on the circumstances at the time. There is no fixed agenda. We have tended to vary it more often in recent years because of the changes in technology and the changes in the industry.

Senator BRANDIS—Do you pay them a fee to deliver the service?

Mr Harley—Yes, that is right. There is a commercial arrangement around delivery of fee for service.

Senator BRANDIS—How is the fee calculated? Is it ad valorem on the basis of volume of business transacted, or is it a flat fee? Do you know?

Mr Harley—I would prefer not to get to that level of detail, but it is a pretty straightforward commercial arrangement primarily driven by volumes.

Senator BRANDIS—I suppose there is no reason why any other bank could not seek to negotiate a similar arrangement with Australia Post.

Mr Harley—Absolutely.

Senator BRANDIS—To your knowledge, have they done so? Has there been an attempt to do so?

Mr Harley—I think Australia Post has had a whole range of discussions with a whole range of financial services players.

Mr GRIFFIN—They have their own—

Mr Harley—The giroPost arrangement itself now extends to roughly 70 financial institutions. I imagine there have probably been other discussions at different times as well.

Senator BRANDIS—I suppose in remote areas it is a bit academic. I imagine that in a lot of those areas there was only one bank prior to the branch closure anyway and, where that was you, you just put the business through Australia Post.

Mr Harley—To some extent, although—

Senator BRANDIS—So there is no existing customer base for other banks.

Mr Harley—again it varies. There were one-branch town models and there were multiple-branch town models. It varies.

CHAIRMAN—What is the extent of the facilities that are offered through the Australia Post agencies in relation to small business clients? Do they get the full range of facilities that they would have had at a branch?

Mr Harley—It varies. We have been working with Australia Post over the last two years to extend the facilities. We are now at a position where small business customers can access Australia Post in 212 outlets, I think, which have been chosen on the basis of the particular needs of those communities. That continues to expand over time.

CHAIRMAN—Where would a small businessman go for the sort of traditional financial advice—not only in relation to general financial advice but even in relation to their own business—that traditionally they would have obtained from their bank manager?

Mr Harley—Again it depends on where that business is. If it is near one of the larger regional centres, we would get people to go to there. Alternatively, one of our business bankers or agribusiness specialists would come to them. Alternatively again, we have a dedicated telephone line that operates that our business customers can ring and get advice over the phone.

CHAIRMAN—Would the people from whom advice can be sought know the business in the way that the old-time bank manager would know the business of their client in a local town?

Mr Harley—Clearly, over the long period that we are talking about, there have been changes both in the nature of the businesses and in the nature of financial services. Typically those businesses are more complex. There would not be the same one to one, day in, day out relationship today that there would have been 30 or 40 years ago. That is clearly right. Likewise, the needs of the business have changed over that time too. Typically the face to face transactional needs of those businesses have fallen while the need for specialist advice has risen, and we have tried to balance that.

CHAIRMAN—Does the Australia Post facility operate cash handling facilities and that sort of thing for small businesses?

Mr Harley—Absolutely.

CHAIRMAN—I asked a previous witness about the proposal from the Catholic Women's League in Tasmania about mobile banks. Have you examined the feasibility of that?

Mr Harley—In the mid-1990s, we actually had exactly that facility and we were disappointed in the take-up of it. That is not to say that if we were doing it again we might not do some things differently in that space. I suppose we can talk from experience in terms of having found it not to be greatly successful for us and, for that reason, not something we are actively considering at the moment. But all these issues come in cycles. It is not something we would rule out forever.

CHAIRMAN—The Australian Centre for Co-operative Research and Development, who are going to appear before us shortly, raised in their submission the issue of the United States Community Reinvestment Act. I do not know whether you are aware of that or the details.

Mr Harley—Only in very broad terms.

CHAIRMAN—What would be the view of the bank in relation to that sort of mandatory provision applying in Australia?

Mr Harley—I do not feel I could give an informed view on that on behalf of the bank.

CHAIRMAN—You, and Westpac, have acknowledged your role in the community. What would the attitude of the banks be to mandated community service obligations?

Mr Harley—The bank believe that we have a community service obligation to provide accessible and affordable banking across Australia. The fact that we have a much larger distribution spread—more places where we provide banking to people—is a primary demonstration of that. The provision of significant rebates or fee-free banking to significant sections of the community, such as old age pensioners, war veterans and children under the age of 18, is also a demonstration of that, and our commitment to a whole range of community support—for example, medical research, youth education programs and support for people affected by natural disasters—is further evidence. Our position on mandated community service obligations has consistently been that the risk with them lies in the scope for unintended consequences.

Senator BRANDIS—What does that mean? Just for my benefit, can you elaborate on 'unintended consequences' in that context?

Mr Harley—That is probably about as far as I feel qualified to speak on that issue. We see our obligations around providing affordable, accessible banking right across Australia. We feel we deliver that to a greater extent than anyone else. We see that as the primary place where our obligations lie. I would really prefer to leave my comments there.

Senator BRANDIS—Can I ask you a key, almost philosophical, question? Because of the centrality of the services banks sell to communities, although they are private enterprises which have an obligation to make a profit for their shareholders, do they stand in a different relationship from any other commercial ventures that sell goods and services to the community? Or are they no different from any other company that sells a different good or service?

Mr Harley—We believe that the viability of the banking system ultimately depends on public confidence in the system, which in turn relies on a sense of trust between the community and the financial sector—supported, of course, by the appropriate regulatory framework—in a different way to the provision of any other service in the community.

Senator BRANDIS—So the answer to my question is yes, you think you are in a unique position.

Mr Harley—More than anything else, the provision of our services and the ongoing viability of the banking system depend on the trust of the community. It comes down to our ability to continue to operate in a commercially viable way. I think, as I said, there is a special relationship of trust between the community and the financial service sector overall. We regard that as critical for everyone involved in the financial services industry.

Mr GRIFFIN—I have one further question. I apologise if you dealt with this issue before I got here. I heard you mention the bank's commitment to maintaining its network. I note from the introduction of your submission—and I recollect that it was stated by David Murray—that you will retain the size of your existing branch network for the foreseeable future. I understand that may involve some movement within the network. I note you have coupled that with another commitment. Can you clarify that for me?

Mr Harley—Our commitment is that in every community where we have a Commonwealth Bank branch offering face to face services we will retain our services on that basis going forward. Obviously, it does not mean that if we are providing the services in a branch and the lease runs out we do not have to move across the road or something. The essence of the commitment is where we are now providing face to face transaction services through a branch we will stay.

Mr GRIFFIN—My understanding of where you might see some differences, some reconfiguration is, for example, in metro areas, where you might find that with a growth area you might have new branches established while in other parts of the metro area or larger towns you might have branches go. Is that your understanding of it?

Mr Harley—Yes. Where we are offering services now, we will maintain them. As I said, we are not ruling out moving across the road, moving a couple of blocks or a kilometre to the local shopping centre or whatever, but where we are we will stay. We are not saying we will open in high growth and close in low growth areas so the number stays above 1,000.

Mr GRIFFIN—You are not saying that?

Mr Harley—We are not saying that. Where we are currently serving a community with face to face banking services we will stay.

Mr GRIFFIN—The question then is: how do you define 'a community'?

Mr Harley—It comes down to a question of trust. We would be crazy, having said that, to make moves where we were relying on legalities and not the spirit of it.

Mr GRIFFIN—There is a whole range of comments I could make that would be, if you would excuse the pun, 'off the cuff' on that, but yeah, sure.

Mr Harley—That is the commitment.

CHAIRMAN—I thank the witnesses for appearing before the committee and answering our questions.

[11.18 a.m.]

CRONAN, Mr Garry, General Manager, Australian Centre for Co-operative Research and Development

PARKER, Mrs Kathryn Anne, Research Fellow, Australian Centre for Co-operative Research and Development

CHAIRMAN—Welcome. The committee prefers all evidence to be given in public, but should you at any stage 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 submission, which we have numbered 80. Are there any alterations or additions that you would like to make to the submission?

Mrs Parker—No.

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

Mr Cronan—Thank you, Mr Chairman, and thank you for the invitation to present our submission to the inquiry. I would like to make a few introductory comments, and then Kathryn is going to deal with the detail, if you like, of the submission. I would like to provide a bit of context for ACCORD's work so you can understand why we have an interest in the area that you are currently looking at. The Australian Centre for Co-operative Research and Development was established and formally commenced in July 1999. It is supported by the New South Wales government and is a joint venture between Charles Sturt University and the University of Technology in Sydney. Its specific focus is cooperative, mutual and social economy organisations. It is the only such university based research centre that exists in Australia, although there are a number in comparable countries throughout the world.

We have a number of areas of interest but, as far as this inquiry goes, we have a particular interest in regional development and funding for social enterprise. We internally commissioned some work, which I think CUSCAL have used as one of the attachments to their submission on the Credit Care experience throughout Australia. That is an example of the sorts of areas in which we have an interest—a mutual and a cooperative organisation, looking at serving regional Australia from a self-help, mutual aid perspective. We have also done some policy and research work recently, which Kathryn has been the principal researcher for, on community development financial institutions and we are doing some work at the NSW Premier's Department on a pilot program for these sorts of organisations in the Hunter. That speaks to our real interest. It is about communities helping themselves and about impediments that might exist to initiatives for established cooperatives or other social economy organisations. We have an interest in both a social and an economic outcome—in organisations that engage in business to conduct a business that is not only successful but also has a social purpose.

For us, examples of mutual or financial organisations that go into areas of perhaps market failure would seem to be right within the terms of reference for the inquiry. It is about the sorts of organisations that will, in principle and in character, serve those communities—not because they are compelled to necessarily but because they have a specific interest in the community and will stay there because, by definition, that community comprises the members of those organisations. That is the heart, the core, of our research work—trying to understand the dynamics of those organisations and where they are most appropriate. We have done work on cooperative development solutions in rural communities and we have looked at financial mechanisms.

Part of what we are about is that the financial intermediaries have a broader purpose. They are serving community needs. It is about the coupling of that financial organisation with community development organisations or other small businesses in the area. That linkage is important to us. It is about not just the provision of the service but also the outcome of the provision or withdrawal of that service so there is a sort of partnership between the development activities and the financing arm. That provides a bit of a perspective to our work, and we are happy to provide further detail to the inquiry about some of the other research work that might inform consideration of the sorts of contributions we can make to the debate. Outside of that context, Kathryn will speak to the specifics of our submission.

Mrs Parker—I would like to raise some issues about your areas of concern that we highlighted in the submission, as well as bringing in some of the research that I have undertaken recently in community development finance institutions—abbreviated as CDFIs. There is a survey of overseas institutions, in the US and also the UK, as well as a recent project funded through the Premier’s Department, looking at the possibility of establishing a community development fund or foundation in the Hunter region. I am going to be bringing in some of that information and research in addressing your areas of concern.

So the first point we are making is that there is a lack in Australia of local financial institutions that really understand business enterprise needs. Some of these institutions are overseas in high numbers and are flourishing and doing very well, and they are often called CDFIs. What distinguishes them from other financial institutions that we have in Australia is that they are very in touch with local, business and community enterprise needs. Those are their key priorities. Those institutions also assist in the development and preparation of business plans and the provision of technical advice. They help businesses and communities meet their needs for alternative sources of finance. They often look at things differently to overcome the need for collateral. Financing is their primary delivery mechanism.

The problems of small business are well documented—business cash flow and the inability often to forecast needs. A lot of these CDFIs overseas work directly with those small community enterprises to assist them in their financial needs. They also often provide them with highly needed seed capital. Certainly my research in the Hunter so far demonstrates a lack of enterprises that can provide seed capital or start-up money for those enterprises. So there are community needs and small business needs. In recent years in Australia, as you would be aware, there has been a decline in banking services. There is plenty of information, as you have documented here, on that. We question whether these studies have adequately documented the decline in business banking services rather than just pure over-the-counter financial transactions or ATM information.

Certainly our information is that giroPost and the rural transaction centres do not cater for business and community enterprise needs; nor do they really go out of their way to understand them. The establishment and proliferation of community banks in Australia though the Bendigo franchise goes some way to meeting that need. They are moving in where the supply has gone. Our issue there, based on our research of overseas CDFIs, is that they are not quite the same. The community banks do not go quite far enough in really understanding the local community and enterprise needs. Our information is that most of the banking decisions and lending decisions with these community banks are still made in Bendigo rather than in the local communities where they have been established. As we understand it, that is the way that it is.

From our perspective, your previous *Regional banking services: money too far away* report did not adequately address the financial needs and demands of rural and regional businesses or the supply of services to those organisations. We are asking that the committee, firstly, examine the extent to which existing financial institutions serve local and regional business and enterprise needs; secondly, recommend on the need to expand available services for those enterprises, in particular in remote and regional areas; and, thirdly, investigate the impact of current banking and financial regulations, in particular prudential and regulatory requirements which we gather impact on small and community based financial institutions—that is, credit unions and friendly societies.

Mr Cronan—And their capacity to get started.

Mrs Parker—We have information from financial institutions such as Maleny and District Credit Union and Foresters ANA Friendly Society that even providing basic financial community business banking services in those regional communities is becoming harder and harder for them, given their regulatory and prudential requirements. There are a couple that have managed to stay in operation. We understand that very few credit unions have been able to start since the Wallis recommendations have been in practice, and we are asking why. A lot of those small credit unions and friendly societies try to understand the financial needs of the community and their business enterprises. And you are quite aware of the decreasing nature of other business banking branches and service delivery.

The second major point that we are trying to reinforce is the issue of reinvesting in community capacity building. While the *Regional banking services: money too far away* report looked at community reinvestment policies in the US, it just looked at it. It did not make any recommendations; it did not go very far. There is a lot of best practice in the US that we can learn from in Australia, especially in the way their CRA Act of 1977 has leveraged capital into disadvantaged and formerly red-lined areas. Admittedly, that sort of practice—red-lining as such—has not happened in Australia, but you have to argue that various remote areas are still highly disadvantaged because they do not have adequate financial services.

US Treasury is quite remarkable in its establishment of the CDFI Fund in 1994. The Clinton administration introduced that. Comprehensive tax credit systems and other venture capital initiatives need to be further explored. There are always differences between implementing and taking those initiatives into the Australian context and there are reasons why the US is successful. They may not be applicable to Australia, but we still need to consider those policy initiatives in the Australian context, especially in rural and regional communities. There is also a need for greater disclosure by banks and financial institutions of who they are lending to. I gather that that sort of information is just not available. The UK and the US have certainly gone some way to requiring further disclosure from its financial institutions in that area.

Greater latitude is needed for charities and trusts, especially in their establishment of foundations. We understand foundations trying to establish in rural and regional Australia at the moment are being held up by ATO rulings, because the ATO do not know what those sorts of organisations are or understand them particularly well. They are probably concerned about fraudulent practices that have happened in the past. That certainly needs further consideration by this committee. Greater support is needed for what we have called community development finance institutions and their associations. The UK government is considering this at the moment. As I have mentioned, investigating the possible transferability of overseas initiatives into the Australian context is very important.

The third issue that we are raising is community service obligations. I know you documented that in the previous report—I saw that report—but the recommendations probably did not go far enough. I heard the previous speakers saying that they had not yet considered that fully. I think it is the committee’s role to ask further questions on what the problems with those community service obligations are, especially in terms of banking and lending objectives. Maybe there is some precedent in anti-discrimination legislation that might be relevant in this context or some sort of demonstration of community service obligations in annual reports. That is the point we are making there.

The fourth point is on the data on rural and remote businesses. From a research perspective, it is next to impossible to get very good small-area data at a local and regional level. There was the 1998 business register information from the ABS, which you can pay for, and that was very good. But that service is no longer in operation. I understand there have been recent attempts, in conjunction with the ATO, to improve that small area of business information, but it is not the same as it was; it is not comparable. I would question whether it is as good as we used to have. I would also say that the previous information did not go far enough. I would refer you to the US Census Bureau as well. What they do there, the information they have on rural and regional communities and businesses and their enterprises is at least partially good.

There is also a complete lack of detail on business and enterprise lending by financial institutions in Australia. I know you have pointed out here the points of presence information and bit of information that the APRA and the Reserve Bank publish jointly, but that does not go far enough towards providing information. The Bank of England is now reporting annually on business finance in deprived areas. That all happened as a result of the UK task force on social investment. I would recommend that you have a good look at that, because they are reporting and providing that information. I suppose your concerns are least-cost methods, as usual.

Those are the main issues that we want to raise. I suppose it is now over to you for questions. We will provide further information where we can. We have undertaken our research with a view to assisting the needs of small business and community enterprises in regional Australia. We hope to publish this detailed CDFI research that we have been undertaking on overseas practices. We also hope to wrap up some of our preliminary work in the Hunter region of New South Wales in the next couple weeks.

CHAIRMAN—You raised the issue of the need for further research and provision of data. What role would ACCORD itself be able to play in undertaking that research as a research institution?

Mrs Parker—As I understand it, as a research institution we are limited by how much we have in terms of finance. Our resources are pretty thin on the ground. But we certainly have a capacity to undertake further research and we would like to do that if we had the capacity.

Mr Cronan—We certainly have an interest, because we think there is a real gap in that sort of knowledge base in Australia. Our initial work on Kathryn's CDFI paper has sparked a lot of interest, particularly amongst social enterprises and regional development people. We would like to build on that through the pilots that we are currently doing in the Hunter and also get our hands on that data on the missing link between the lending practices and the economic and social outcomes on the ground that Kathryn is talking about. That is very much of interest to us.

CHAIRMAN—You also referred to several issues that you believe the committee should further investigate. Do you have any suggestions as to how we go about that? The committee is limited in its investigations to what it receives in submissions, and then responds to those through public hearings and questioning witnesses. On the issues you have raised for further investigation, do you have suggestions as to how we go about that, given that they are issues that perhaps have not been raised in submissions for this hearing?

Mrs Parker—We certainly have this report on overseas community development finance institutions. At the moment it is unpublished. It is in a form that I understand needs further tweaking. Maybe we could make that available to the committee. We would certainly like to do that, but probably in a less public format.

CHAIRMAN—A confidential submission?

Mr Cronan—Yes, sure. Within the next couple of weeks we will be in a position to do that. Kathryn has made reference to the UK Social Investment Task Force. That is well worth a read. I would encourage the committee members to have a look at that as well. There have been a number of key reports. If you want to, in a sense, get a summary of that, the CDFI paper is the best and probably the only summary from an Australian perspective.

CHAIRMAN—You also referred favourably to the Community Reinvestment Act in the United States. To the extent that I have done some investigation of that in the past, I understood in some respects it had become a vehicle for financial blackmail, in a sense, and had become very much a race related facility. In those instances it actually hindered aspects of economic development and business activity. Do you have any comments on that?

Mrs Parker—We do not address those issues in the report we have written on CDFIs. Certainly from the research that I have undertaken, the CRA Act was a major legislative force to stimulate further lending into deprived and disadvantaged areas that had formerly been 'red-lined', if you like, by the various banks.

Senator BRANDIS—Why should they do that?

Mrs Parker—You would have to look at US history to find those reasons.

Senator BRANDIS—Why do you say it is a good idea that banks should be encouraged legislatively to lend more into deprived areas?

Mrs Parker—Are they lending into deprived areas?

Mr Cronan—He meant: why should they?

Senator BRANDIS—Why should they?

Mrs Parker—My question back to you is—

Senator BRANDIS—No, no—you answer my question. Why should they?

Mrs Parker—I do not think they are lending adequately at the moment. I would like to find greater evidence—

Senator BRANDIS—Do you have data that establishes that proposition that they are not lending adequately at the moment?

Mrs Parker—I question whether there is any data that provides that.

Senator BRANDIS—How can you say they are not lending adequately if there is no data that shows whether they are or whether they are not?

Mrs Parker—That is a very good point. We have a lot of anecdotal evidence in Australia. We have a lack of substantial data on both the demand for and the supply of financial services in all areas of Australia.

Senator BRANDIS—Let me elaborate that point. If this anecdotal evidence is true, maybe the reason banks are not lending to deprived areas is because people in deprived areas are not borrowing much money, because they are deprived economically and therefore their banking habits are different from people with more money and more capital to borrow against. What are the banks supposed to do about that?

Mrs Parker—The evidence is that those regions are deprived.

Senator BRANDIS—Which evidence is this now?

Mrs Parker—Available data suggests we have high areas of unemployment. Available data suggests—and this is also very bad—that there is very little growth at a regional level in a lot of areas because of high unemployment—businesses moving away. The need to stimulate local community capacity is evidenced by those disadvantaged—

Senator BRANDIS—Is that a bank's job, though? If you have a deprived area—and I take it that, for the purposes of this discussion, by 'deprived' we mean 'economically deprived'—if you have an area of high unemployment, or much higher than average poverty levels, or low household capital, you would expect there to be low demand for banking services, because that is a function of, to use a word that people tend to run away from these days, poverty. Poor people borrow less money than rich people. That is a fact, isn't it? Why is that the bank's fault?

Mr Cronan—I think the American experience speaks a little to carrot and stick. I think it wants to try and encourage the banks to lend back into some of those areas and not export the capital out of those areas, and build capacity, as Kathryn has said, to help themselves within those communities, so that over time they are building a larger capital base themselves and therefore opening up more options in terms of employment and enterprise development. That is at the heart of the UK Social Investment Task Force. The social cohesion, the community building, is dependent upon the capacity of a community to harness the financial resources under its own control and sympathetically understood by lending institutions. That is part of the reason we are proffering the CDFI model as worth serious examination in Australia: because those organisations, in combination with the community, help build that capacity. So, in a sense, from a banking point of view it may well be that the traditional banks' role is not that. It becomes the CDFI, if you like, that has that assigned responsibility or assumes that responsibility to build that capacity in community.

CHAIRMAN—Are you suggesting that the traditional banks should also be getting into the role that is being filled by microcredit organisations like Opportunity International and Grameen Bank? Are you suggesting that they get into that field, which in a sense is a welfare field?

Mrs Parker—Certainly overseas the CDFIs—through the CRA legislation and through similar legislation in the UK—normal financial institutions, with a range of other charitable and community organisations, work together to leverage capital into communities that are very deprived. They operate in a whole variety of different means. They operate in terms of both credit unions and financial institutions as banks. As well, they operate as community development loan funds, sometimes foundations. The point is that they are quite flexible in how they lend. In terms of their capital adequacy, they also are quite unique, in the fact that they have very low default rates and they meet the needs of their local communities and businesses by delivering services that they want, with appropriate technical assistance, and they are highly demanded.

CHAIRMAN—Isn't that a role that might be better left to organisations like the Grameen Bank and Opportunity International that specialise in that field, because it involves more than lending in the way that a traditional bank does. It involves mentoring, training, micromanaging—

Mr Cronan—Exactly. That is the very point.

CHAIRMAN—which a traditional bank may not be suited to.

Mrs Parker—As I understand it, the Commonwealth has a role in regulation, in terms of regulating financial institutions, in terms of taxation and in terms of the regulations that impede the establishment of various institutions. As we understand it, the types of institutions that are flourishing in the US and the UK at the moment could be starting up and could be demanded in Australia.

CHAIRMAN—So you are looking at the regulatory structure that might foster this, rather than at the role of the existing traditional banks?

Mrs Parker—Yes. The capital adequacies and the APRA regulations on, for instance, credit unions and friendly societies at the moment are quite onerous. The evidence pointing to this is that very few of those credit unions have been able to start up and establish, at least in the last four or five years, and there has been a decline in existing financial services. Sure, there are various other organisations beginning to develop to take up the demand that is there, and that demand will certainly not go away. But I think the Commonwealth has a responsibility to develop regulations, monitor what is happening and collect data on regional and rural communities, relating to the supply of financial services to them and the location of institutions that service their needs. That is what we have addressed in our submission.

Mr Cronan—We are also suggesting that the public policy is not enabling the variety and diversity of organanisational forms that you find in the US and UK. There is, in a sense, a gap between the systemic regulation for the financial institutions and the ability for innovation in meeting financial need on the ground. The one system tries to cover all of that, and we are suggesting that there may be room to look again at enabling communities to help themselves through financial mechanisms.

CHAIRMAN—Are you saying that we are overregulated in the sense of prudential requirements?

Mr Cronan—Not necessarily, for the purpose of what that is about. But to harness these financial institutions to community economic development—to establish that linkage and avoid the social outcomes of the absence of those institutions—we are suggesting that there may need to be a new piece of enabling legislation or enabling policies. We are not being prescriptive about it; we are just encouraging you to focus on that area.

Senator BRANDIS—Mrs Parker, you spoke about capital adequacy requirements as one area which could be reformed. By that, do you mean that the Commonwealth should prescribe lower capital requirements to be held by the lending institutions, which would be encouraged to invest in the deprived communities you have spoken of?

Mrs Parker—It is an issue which needs further research and investigation.

Senator BRANDIS—What is your position on it? Do you think that the capital adequacy requirement should be changed?

Mrs Parker—I think you need to speak with some of the very small financial institutions and seek evidence from them on how they find those regulations.

Senator BRANDIS—So you don’t have a point of view on that issue?

Mrs Parker—I refer to what I have previously said. Further information is needed.

Senator BRANDIS—Going beyond the suggestion that we think about capital adequacy requirements, what other legislative or regulatory changes would you recommend to facilitate the kind of investment in social infrastructure by banks that you have spoken of?

Mrs Parker—As we have mentioned in our submission, I would recommend some sort of community service obligation which is not too onerous.

Senator BRANDIS—That is the very thing I was going to ask you about. Let me ask an elementary question. Why do you say banks should have community service obligations? I am not necessarily disagreeing with you, but your submission assumes that is a given. Most corporations do not have community service obligations. There is an argument that banks are in a unique position, but why do you say banks should have community service obligations?

Mrs Parker—Your previous report addressed this issue, and the various reasons, well. We support the fact that you addressed that.

CHAIRMAN—I should point out that it was not our report. It was done by a different committee.

Senator BRANDIS—It certainly was not my previous report. I want to have this dialogue with you. Why do you say banks should have community service obligations?

Mrs Parker—Basically because they do not at the moment.

Senator BRANDIS—'Because they don't' is not an argument for saying they should!

Mrs Parker—There is enough anecdotal evidence to say that regional and rural communities do not have adequate business and community banking services at the moment. Perhaps a community service obligation by the banks and financial institutions to regional areas, and especially to remote areas, would go some way to ensuring that there are adequate financial services for them—especially for community and business projects, which will in turn stimulate employment in those areas.

Senator BRANDIS—Will it, though? I can understand the locality issue. We have heard from others like Westpac and the Commonwealth Bank this morning that they take the view that the reach of availability of their services by one means or another to remote locations should be as extensive as they can possibly make it. Just because a bank is there does not mean it is going to lend money to anyone. You have mentioned community organisations. How does the presence of the bank at a particular locality of itself stimulate economic activities? Isn't that a function of the local economy?

Mr Cronan—It is in the sense that the bank managers and staff live in that community, they understand that community, they have an association with that community and they would presumably want to see that community go ahead. They are not remote from it and, therefore, their decisions are at one level affected by their concern about the wellbeing of that community.

Senator BRANDIS—But they still have the same lending guidelines as somebody in Pitt Street.

Mr Cronan—That is why we are suggesting that organisations, in a sense from the grassroots up, which belong to, understand and are in the control of that community but are adequately regulated, are perhaps a missing piece of the architecture. Regulation is a substitute if the market is failing at one level and if it is not delivering an equitable outcome to those people in particular communities—

Senator BRANDIS—Or an efficient outcome.

Mr Cronan—Or an efficient outcome in that sense—you can look at another alternatives.

Senator MURRAY—I wonder if we are not here contemplating the demand versus supply argument. As I see it, the demand argument is that if there is not sufficient demand you do not supply. and that is perfectly understandable. But, if it is a supply argument, you say that there needs to be provision of a number of things to generate a community and so on. Assume there was no community at all and you have a greenfields site. You would have to provide at least these things: water, energy, transport, infrastructural means, communications and money. When you have those you can generate a community. We are focusing on the money side of it. In my state of Western Australia, there are eight development commissions who seek to foster development in their areas. It seems to me that government, both federal and state, are intimately involved in the regulation and the policies which deliver water, energy, communications and transport but not really finance. They do not promote it. Listening to what you are saying, there is a lack of an incentivised area. I agree with my colleague that the commercial banks may not be the right mechanism, but the lack of it may contribute to fewer growth and employment possibilities and a less vibrant and developing community.

Mr Cronan—The sustainability argument.

Senator MURRAY—The question Senator Brandis asked you and one that has not been adequately answered in my view so far is: what evidence is there that the lack of availability of financial services, whether by banks, microcredit organisations or credit unions, is an impediment to the development and growth of communities? And attached to that question is: if there is no empirical evidence here, is there empirical evidence elsewhere—you mention the United States and the United Kingdom—which indicates that if you improve your policy and your regulation you actually generate employment and growth?

Mr Cronan—We have pointed to the need for more information to be able to actually prove the case. The demand and supply issue is very real. We are in the middle of demonstrating that in a very practical way in the Hunter to find out the need for that sort of financial institution as a development tool there. So we accept some of the general points you are making. But, if you look at comparable countries, why is Australia so different from the UK and the US? What explains the absence? You are suggesting, perhaps, that there may be no need.

Senator BRANDIS—I am not suggesting anything. I am just trying to tease out the weaknesses in your argument.

Mr Cronan—We are suggesting that, in a sense, Australia trails the US by about 30 years and the UK by about 10 years in this area. The institutional reform that has gone on there has enabled these sorts of organisations to spring up to demonstrate the very point you are making.

Senator MURRAY—To me there are two areas that are not properly identified and separated: one is whether the provision of such services makes for a better functioning community and the other is whether the provision of such services enables economic growth, which includes employment, productivity and those sorts of measures. I can understand the need to support a subsistence community so that it can function better, but it will not do much more than that.

Mr Cronan—It is meant to move from welfare and dependency to sustainability. We are in the middle of research at the moment, so we are compiling the evidence for the case we are presenting.

Senator MURRAY—I think Senator Brandis's point was that you have come to a conclusion without having had sufficient data input, because it is not there. He was questioning whether your conclusion is drawn from other case studies that you are aware of rather than an actual understanding of the Australian situation. Is that correct?

Senator BRANDIS—That is partly so, Senator Murray.

Mrs Parker—Case studies of the policy initiatives both in the UK and the US show that they have been very keen to stimulate community reinvestment and introduce various initiatives to stimulate community development finance institutions. The government has been very keen to do that. In particular, the UK Social Investment Task Force investigated these issues and made recommendations to the UK treasury, which have been implemented. That was certainly the case in the US as well. There are problems with CRA; we do not doubt that. The point is that, from our research, in Australia there is very little study done on the demand for these innovative institutions. There is a lot of anecdotal evidence, and that is pretty frustrating from a research perspective.

The nature of the funding that we have for gathering this information in the Hunter is providing us with qualitative information rather than really good, substantial quantitative information on the demand and supply of these unique products that can assist the disadvantaged and assist in creating and stimulating local community capacity. As well, I would think that we as a country need to further look at overseas initiatives from a policy perspective in view of what should happen here from a research perspective.

Senator BRANDIS—I hear what you are saying about the gaps in the data, but I want to challenge you with a more fundamental proposition. Apart from the provision of functional services like cheque-cashing facilities that enable people to get along with their daily lives, banks basically do two things: they take deposits and they lend money against assets. Why do you say that banks are the kinds of economic entities that are particularly well placed to assist in the development of social infrastructure in deprived communities when ex hypothesi deprived communities are deprived because there is not a lot of money around.

I do not want to sound unsympathetic. It is all very well to say that governments should have targeted strategies to invest in and assist deprived communities, as all governments of all political persuasions do in various ways. But why do you say that banks, which are in the money business, are an institutional or economic actor well placed to assist in the task of enhancing social infrastructure in deprived communities?

Mrs Parker—Certainly our research has shown that it is not just banks; it is also credit unions.

Senator BRANDIS—Let us focus the discussion: why do you say it is banks at all?

Mrs Parker—In the US and also in the UK there are so-called banks which operate as social banks; there are credit unions which act as community development credit unions.

Mr GRIFFIN—Do they make profits?

Mrs Parker—Some make profits; some do not make profits. Some are also structured as community development loan funds. The UK and the US have a community development venture capital fund. Of all these initiatives, some are market driven, some are market occurrences as a result of history.

Senator BRANDIS—They are presumably guaranteed by government, is that right?

Mrs Parker—Some of the policy initiatives that have recently been established in the UK and also in the US are government facilitated, such as the venture capital fund.

Mr Cronan—And the Phoenix fund, which lends to CDFIs.

Mrs Parker—The tax credit systems which are operating in both the UK and the US are further government policy mechanisms to assist those institutions to be operating. In another aside, apart from just leveraging capital into deprived areas to stimulate economic growth and employment, a key feature of these community development credit unions, community development banks, community development venture capital funds, loan funds, microcredit et cetera is that they also provide technical assistance to help deprived areas with business plans and provide them with resources to help them meet their credit and financial obligations. That is a very key component. It is not just finance; it is finance that is probably a little bit more intensively resourced and not profitable.

Mr GRIFFIN—There are some points there which are very worthy in consideration of social policy, if you like, with respect to regions. The question, though, is: is it something you should require or expect banks to do, given the nature of banks, or is it something you see as being the government's role to address—possibly in combination with the banks—where, in effect, they would take the risk or subsidise? I for one do not think it is a bank's role to enter into that sort of activity as a community service obligation. I do not think that would really fit at all. But it is an interesting policy issue to look at in terms of what governments should be doing to stimulate it, unless it is a situation where there is a capacity for profit to be made, and then it is a question of the banks looking at the opportunity and seeing what they can do.

Mrs Parker—Let us pick on the UK, for instance, because they are pretty similar and fairly recent initiatives have been introduced by the Blair government. They investigated these issues. They have a similar financial structure to ours. They initiated a Social Investment Task Force that looked at ways to stimulate lending and social investment into deprived and disadvantaged areas. Their key recommendations were policy initiatives, tax credits and greater bank disclosure of lending in deprived and regional areas, as well as various policy initiatives to assist CDFI industry associations and the establishment of a venture capital fund specifically to stimulate further lending in those areas. That is the way the UK did it.

I know that in Australia we are very different. I understand the objectives of banks in regional areas. Banks are driven by the needs of their shareholders and by profit motives. The thing is that there are probably ways that financial intermediaries such as credit unions and loan funds can operate better in terms of lending in rural and regional Australia to assist community capacity building. Those certainly need further investigation in the Australian context. We can borrow from best practice and look at worst practice as well. We can certainly further examine what is happening in the Australian context. That is the point that we are really trying to address. It needs your consideration, it needs further investigation and it needs a really good rattling in parliament.

Senator BRANDIS—You have identified a need, and nobody is unsympathetic to the proposition that there are regions of Australia in need and that something should be done for them, but I am not asking about the existence of the need; I am asking you a question about mechanism. I think I am right—and Mr Griffin might correct me if I am wrong—in saying that there are some major companies that trade in this country which receive the same sort of benefit which you have described. I suspect I am right in saying that the Australian government guarantees, in some form or another, advances by their bankers to the automotive industry in South Australia as part of their package of obtaining capital.

Senator MURRAY—There is also the export credit system.

Senator BRANDIS—Exactly. So it is not that one is being unsympathetic to needy areas. What I am saying is that I am very sceptical of the efficiency and utility of delivering a benefit, which government ordains to be a desirable benefit, by means of regulating the banking system or guaranteeing bankers' advances—whether that be to a deprived Aboriginal community or whether it be to Mitsubishi. It is the mechanism that I question.

Mr GRIFFIN—But your point that there needs to be more research in terms of whether, in fact, that utility is there is worth making. You mentioned earlier that you have some research coming out in a couple of weeks.

Mr Cronan—Yes.

Mr GRIFFIN—Can you make sure that, if you consider that the research raises relevant areas in relation to this inquiry, that is forwarded to the secretary a.s.a.p.?

Mr Cronan—Yes, we will certainly undertake to do that.

Mr GRIFFIN—Thank you, that will be useful. If you think that it raises additional issues then a covering note to that effect would be useful.

Mr Cronan—We have come forward with fairly general recommendations and I think we are being challenged to dig a little bit deeper and be more specific. If that is the challenge to us, we can take that on board if you would entertain additional recommendations to speak to some of the points we have been trying to make. We would happily do that.

Senator BRANDIS—I do not want to be disrespectful or rude, but you have to go further than saying that there are areas of deprivation and acute social need in this country—we know that—and that banks have a lot of money; therefore, why don't the banks do something about it?

Mr Cronan—We are not only saying that. We are saying that there are perhaps missing financial intermediaries that, in conjunction with banks and enabling policy, may well be able to solve some of these problems.

Senator BRANDIS—I suspect that that is the real pay dirt of your submission, as it were. You say that there could be a different form of financial—

Mr Cronan—Institutional mix.

Senator BRANDIS—institution which is not sufficiently provided for or encouraged by regulation, like micro credit unions and so on, which, because of their smallness and interface with given communities, could meet needs which banks not only do not meet but which, I would argue, cannot and should not meet.

Mr Cronan—They do not even identify those needs.

Senator BRANDIS—Is that your main point?

Mr Cronan—That is certainly one of the major points.

Mrs Parker—It is certainly a point. There is a missing set of financial institutions which has been operating with a great degree of success overseas, especially in the UK and the US and also in various other underdeveloped countries. As I have mentioned, these financial institutions take the form of microenterprise schemes—community development credit unions, community development loan funds—as well as banks with social and community development objectives.

Mr GRIFFIN—The wider point is that, when we talk about community service obligations—as we often do in relation to banks, telcos et cetera; and I support that in principle, but we have to go to the details—there is the issue that government also has responsibilities in those areas. When you look at what has occurred around issues, such as banking in rural and regional Australia, you can point to and question the actions of governments of all persuasions in withdrawing services from those areas. If we can better quantify the actual cost and benefits of what we might do, that might actually help in policy making. But that is a huge issue in itself, probably beyond the scope of this inquiry.

Mrs Parker—It is probably beyond the scope of our immediate capacity as well. The government, although we have not mentioned it, is a shareholder in the Commonwealth Bank. There are various ways in which, as a shareholder—and I know this is very topical—it can ensure some of these other community needs are met.

Senator MURRAY—I do not think it is a shareholder at all.

Mr Cronan—A number of these arguments are, in a sense, buttressed within the framework of our paper. I bring that to the committee’s attention.

Mr CIOBO—I have a couple of very quick questions. As a part of the Hunter Valley study, have you done anything with the area consultative committee?

Mrs Parker—Yes, we are working with them.

Mr CIOBO—How do you find the Regional Assistance Program? What are the inadequacies of the RAP? To what extent does it fail to address some of the core issues you have spoken of today?

Mrs Parker—We have recently applied, through the Regional Assistance Program, to undertake further investigation of these demand and supply issues in the Sydney region.

Mr CIOBO—As an organisation?

Mrs Parker—As an organisation, we have applied. Under the current guidelines, we were told that our study looked like a feasibility study and therefore was not able to be funded. We have to go back and change it so that it meets the current guidelines, in order to further investigate financial needs and demand and supply in various deprived areas of the Sydney metropolitan region.

Mr CIOBO—I was not so much asking about your organisation’s application. I am questioning, on a broader basis, why the Regional Assistance Program is not sufficient to meet a lot of the core issues you have spoken about.

Mrs Parker—We have not really investigated that thoroughly. We have worked with the various regional development departments in the past, at Commonwealth and state levels, and they are quite in tune with some of the initiatives we are taking. That has generally been good. I have had great assistance from the regional development representatives in the Hunter in terms of the initiatives that we are undertaking. Certainly, we have spoken to some of the businesses in the area, as a result of our relationships with DOTARS and the ACC network, and that has been very good. They certainly provide further evidence of the lack of supportive institutions which understand their needs or can provide seed capital or further business planning and technical advice. It has further reinforced what we have been saying today.

Mr CIOBO—Have you done anything with the New Enterprise Incentive Scheme? Have you looked at that?

Mrs Parker—We are aware that the New Enterprise Incentive Scheme is there. It is a scheme that assists the unemployed in developing business plans so that they can probably go into business. Whether that is sufficient to gain the financial resources to establish their businesses is something that needs a great deal of further investigation.

CHAIRMAN—Thank you both for appearing before the committee, for your submission and for your answers to our questions.

[12.22 p.m.]

CLARK, Mr David, Legal Officer, Local Government Association of New South Wales

McBRIDE, Mr Shaun Christopher, Senior Policy Officer, Finance and Economics, Local Government Association of New South Wales

CHAIRMAN—I welcome the representatives of the Local Government Association of New South Wales. The committee prefers that all evidence be given in public, but if at any time you wish to give any of your evidence in private you may request that of the committee and we will consider your request to go in camera. We do not have a written submission from you, so I would ask you to present your oral submission to the committee and then we will proceed to questions.

Mr McBride—I would like to start off with apologies from the presidents of both associations. Councillor Mike Montgomery, the President of the Shires Association, is in a conference at Nyngan and Councillor Sara Murray, the President of the Local Government Association, was otherwise committed today. As you noted, we have not made a formal submission to this particular inquiry. We have made submissions to previous inquiries into the area of banking and finance in rural and remote communities, including to the Hawker committee, plus numerous representations direct to ministers and so on, expressing our concerns. For that reason, our committee decided that there was probably not a lot to add to those previous submissions.

Despite that, we were invited to come along today. Perhaps we will be to a large extent reiterating concerns we have raised in the past. I wish to state that LGOV New South Wales, as we are now known, is the secretariat or corporate entity representing the Local Government Association of New South Wales and the Shires Association of New South Wales. We were formerly known as LGSA or Local Government Shires Association. We represent all of the 172 general purpose councils in New South Wales, the 13 divisional Aboriginal land councils and the majority of special purpose county councils in the state.

We have had a long-term interest in this issue. The associations established a banking and financial services task force in 1998. This was established in response to conference resolutions that reflected growing community concern about the deterioration of banking services in both rural and urban communities. The trends in the provision of banking and financial services were causing, and are continuing to cause, hardship in the community. In many instances our members believe they are undermining the viability of their communities. Since deregulation, the behaviour of banks has caused a great deal of aggravation in the community. I think we are all aware of that.

The rampant branch closures in the late nineties—which was probably what prompted our initial task force, because it was a period of massive closures across the state by all banks—was a major cause of aggravation at that time. It was a major issue across all communities. We could tell by the way our members were responding. Other irritants have been rapidly escalating fees—more so in the past, perhaps—irresponsible lending practices, which have been documented in the past and, if nothing else, the apparent indifference banks were showing to the community.

Branch closures are still a major concern. The interim report of our task force back in 1999 recorded that over 1,300 branches had closed between 1990 and 1998, with 411 in New South Wales alone. We are concerned that this trend is still continuing, albeit at a slower rate, despite the promise of some banks to place a moratorium on branch closures. We were concerned, for example, that the *Sydney Morning Herald* reported last week that the big four banks had closed a further 113 branches in the last financial year. The same report revealed a high number of closures by building societies and credit unions—perhaps more disturbing, given that these were a potential solution to some of the problems. As such, closures remain a major problem for rural and remote communities, but also for a number of urban communities in different ways.

We are aware in local government, as are people familiar with country towns, that branch closures—and particularly the closure of the last branch—can have devastating effects on the communities concerned. Many of these reasons have probably already been canvassed. We also know that, despite the protestation of the banks, a great deal of the criticism against them is justified. In more recent times, if only for public relations purposes, a number of banks have acknowledged that some of their practices and patterns of behaviour in past years have been found wanting. We do acknowledge, however, that banking, like the rest of society, has changed and banking cannot and should not go back to the way it was done in the past. Things have changed dramatically in many ways. However, we do not believe that justifies the abandonment of any sense of community obligation by banks.

Touching on a point that was raised in the last submission, we do not see banks as being just like other businesses. We see them as essential utilities in the community. People cannot function in modern society without adequate access to the banking systems. Banks are an integral component of a society’s institutional infrastructure. This has traditionally given banks a certain degree of status and privilege—protected status and privilege until the days of deregulation. This has survived deregulation to a large extent. We still have the same major players in the banking industry. Because of the strength that previous protection had given them, they were well able to defend the territory they held in Australia from many of the potential foreign competitors.

From our point of view, the responsibility to ensure that banks fulfil their obligation to the community belongs to the federal government. The federal government could easily achieve the required level of community service obligation by embedding it as a bank licence requirement—that is a position we have held in the long term—as banks operate under federal laws; states have very little control over the behaviour of the banking industry.

Beyond that, with the federal government not responding in a way that we saw fit and the banks not behaving in a way we thought appropriate, local government, in responding to calls from their communities, through the task force did investigate what roles it could play in trying to address some of the problems. Quite a bit of time was spent investigating those roles and, while we did not see it as a primary role of local governments, they do have a role in maintaining the viability and wellbeing of the communities they represent.

I do not think we need to go into the various trends causing the changes in services, such as technology, the various corporate trends and so on. While we would acknowledge that many of these changes are not necessarily bad, particularly some of the technological changes, we note with concern that, while advancing technologies do provide a solution in terms of access to services for many in the community, they sadly neglect some significant elements in the community, such as the elderly, the disabled, the less mobile and those without the requisite Internet access or skills to use electronic alternatives to traditional banking services. This has been a major concern for local government and for those members of the community. Our members typically cited the problems of branch closures as being the loss of convenience; loss of personal service; loss of local knowledge, which is particularly important to rural and remote communities; loss of local autonomy; and loss of jobs, both directly and indirectly, given the knock-on effects of the loss of jobs in the banking sector in those towns.

These issues have varying degrees of significance for different communities, and groups within each community generally, in terms of access to retail services. They have the greatest implication for those whom I have already mentioned—that is, the less able, the less mobile and so on. They also have implications for small businesses in terms of the absence of cash facilities; that is, safe deposit for cash and access to cash for cash business transactions—money to top up your till, basically, or somewhere like a night safe in which to put it. This has caused a number of problems in smaller communities, but for small businesses particularly. They are the ones who are suffering most from the current trends. As we noted before, the same can apply to metropolitan areas as well, particularly the smaller suburban shopping strips and so on.

The impacts in relation to access to business banking or lending facilities can be quite significant for local businesses. As I have noted, the industry has often blithely responded that electronic banking provides the solutions. But it is only a partial solution and, while it might be an adequate solution for a significant proportion of the population, it does not apply to the entire population.

In summary, the impacts on the community include the financial drain on the community, the loss of investment and the loss of confidence in the community. The confidence aspect is important in country communities—many of our members expressed this—particularly when the last bank has been lost. Many of these communities are fragile economically and socially anyway and the loss of the bank, it having a long-term institutional presence similar in status to a post office, like the loss of a post office, is almost an advertisement that the town is in decline, and it probably accelerates that process.

As I said, apart from recognising it as a federal government responsibility to enforce a certain level of community service obligation, we did explore ways that local government could play a role in trying to compensate. Many councils, as is probably well known, have played an active role in trying to get banking services reinstated or to have alternative services put in place. So we have largely taken on a facilitative role in a sense.

The minimum role we see local government playing is setting up and leading a local banking task force, undertaking financial services needs analyses to identify suitable alternatives, perhaps looking at demand aggregation options in their communities, which have been quite successful in the telecommunications area, gaining community support, launching campaigns to attract the interest of service providers, and approaching existing and other major banks, credit unions and providers to consider remaining or establishing in that community—and a lot of that has gone forward.

Beyond that, at the time—and it was certainly well publicised, probably excessively or misleadingly so—the task force even considered a more involved role, which I will go into later, and we identified other options. At one extreme, people were talking about a local government bank. I think the media at the time referred to it as a people’s bank, which is a popular notion that still surfaces frequently. That was on the scale of consideration, but we also considered community banks and credit unions. There was quite a useful Commonwealth program operating, the Credit Care program, which did a lot of good at that time. We also considered agency arrangements, franchise arrangements, rural transaction centres and strategic alliances, which probably would have linked with the local government bank idea.

On community banks in Australia: I suppose we relate the community banking concept most commonly with the Bendigo Bank or the Bendigo Bank model, which has taken off quite successfully in many parts of Australia and, somewhat to my personal surprise, even in some urban areas. The community bank has turned out to be a viable solution in a number of locations. We know that it is essentially a franchise type operation and requires a significant financial investment by the community. We also know that it transfers business and operational risk to the community—although not the credit risk, because it still operates under the Bendigo credit policies.

We noted there were some dangers with this model—that it could establish a precedent for other banks who might move to gain a similar community subsidy to maintain operations, or that such banks could undermine the viability of other banks’ branches in the area, forcing closures and resulting in no net benefit to the community. We have consistently recommended caution to councils considering this model. However, despite that caveat, we have been impressed with the apparent success of that Bendigo community banking model in dealing with the needs of rural and remote communities. Many of our member councils positively sing the praises of that model. One I have heard about particularly of late is in the Boorowa area, where they are very satisfied with the outcome at this stage.

I have mentioned that credit unions have proved to be a viable option for filling gaps in a number of areas. As I said, Credit Care facilitated that at the time. Local government has traditionally had an involvement with credit unions either through supporting them or, in many cases, having established credit unions for their own staff or their staff having established credit unions which later became community credit unions. A number of areas were able to replace some of their banking and financial services by establishing credit unions or by attracting branches or agencies of credit unions to establish in their area. Trangie and Urana in New South Wales are two places where that occurred.

Agency arrangements presented another alternative, and again local government has been involved in that, taking on agency operations of larger or major banks. That happened in smaller towns within the Walgett and Carrathool areas in the past. There were franchise arrangements. Apart from the Bendigo model, we note that the former Colonial Bank franchised a large proportion of its retail network, although they were not so much community franchises as franchises to commercial operators.

There were other alternatives. The rural transaction centre program, despite a slow start, appears to be providing a viable alternative, particularly in areas of high need, where they have been able to establish viability by aggregating the delivery of a number of services through the one centre. Again, that was something that local government was supportive of and was often partnered closely with. As I said, we considered other things.

In summing up, we maintain that the deterioration in access to banking and financial services is in part a result of the banking industry's abandonment of community service obligations. When I say that I mean that previously in the history of banks in Australia there had always been a strong sense of community obligation within the banks; it had been part of the banking culture perhaps right through the sixties until the seventies. Beyond that, we also see it as a failure of the federal government to recognise and ensure these obligations. It is our view that responsibility to ensure that banks fulfil their obligation to the community belongs squarely with the federal government. The federal government regulates the banking and financial industries and could easily achieve the required level of service obligation by embedding it as a requirement, as I have said.

We acknowledge that a number of the recommendations contained in the Hawker report, *Regional banking services: money too far away*, sought to address these issues. We were not satisfied, however, that the recommendations went anywhere near far enough, with the flaw being that they relied on voluntary codes of conduct and protocols. While these measures appear to have had some minor successes, we are still of the opinion that explicit regulatory measures are required. There is little in the history of self-regulation—not just of banking but of other industries—to provide a lot of confidence in voluntary measures imposed by the industry itself. That is probably a sufficient summary.

I should add in closing that, while we had spent quite a bit of time delving into many of these issues a couple of years back when our members were almost unanimously up in arms about developments at that time, we do acknowledge that there have probably been significant improvements in access to banking and financial services in recent years. We can put that down to a number of factors. This list is not exhaustive, but factors include the apparent success and spread of community banks, and the proliferation of ATM and EFTPOS facilities has also helped to a significant degree. Growth in Internet access and the range of financial services accessible via the Internet has also helped. That is accompanied by a growing adeptness in the community in terms of electronic services; maybe part of what banks could do better is to help the community adapt to new delivery mechanisms. It is also partly as a result of, and it is again in tandem with, the gradual improvement of telecommunication services to rural and remote areas, which is making some of these electronic services more viable and reliable. So we certainly acknowledge that there have been some improvements in the past few years. I will just leave it at that.

CHAIRMAN—Thank you very much, Mr McBride. Do you have anything to add, Mr Clark?

Mr Clark—No, thank you.

CHAIRMAN—I will ask the first question in relation to the matter that you concluded with, Mr McBride, in relation to the use of technology for the better delivery of banking and financial services to remote areas. You said that the technology had improved in recent years. What is your general view, through either fact or perception, of the adequacy of the telecommunication services that are now provided to facilitate things like electronic banking and Internet banking, in terms of speed, reliability and so on?

Mr McBride—There are still deficiencies, particularly in more remote areas or in regional areas off the main trunk. They do not need to be excessively remote, only sufficiently far from the main trunk, to experience major deficiencies. This is improving gradually. It is certainly not a problem for people on the main trunks; and through various programs, which we acknowledge have had some success, significant improvements have been made. That does not mean there is not a long way to go; some of these communities still have poor or unreliable access, black spots, slow data speeds and so on. But it has certainly improved in the past five years. I have been watching that trend and I would have to acknowledge that it has improved quite dramatically, partly through programs and partly through improvements in technology itself.

CHAIRMAN—How much further do you think it has to improve to match what is available in metropolitan areas?

Mr McBride—That would be a long way. I do not think I can quantify that. The major market concentrations—Sydney, Melbourne and even the eastern seaboard to a large extent—make it economical to deliver high data capacities, high speed services and so on. The competitors are obviously attracted to those markets, as they are where profits will be concentrated. I do not think many of the competitors in this industry would pay much attention to improving services to the rural and remote markets, because they are relatively small and dispersed. I do not think there would be much attention paid to those markets at all if it were not for government funded community service obligations currently provided through Telstra tranches or other programs.

CHAIRMAN—What about the costs of access for electronic banking services? Are they reasonable now? I am talking about the telecommunication costs, rather than the bank fees side of things.

Mr McBride—We are probably not in a position to quantify that. Prices for Internet services can be quite competitive now, depending on the linkages. Some of the telephone services can be effective if the banks are providing them through 1800 numbers or 1300 numbers and so on to equalise the cost between communities.

CHAIRMAN—I note the absence of your president, Michael Montgomery, who, as you said, is touring New South Wales in relation to drought issues, primarily. Are you aware of any specific banking issues that have arisen out of his current tour?

Mr McBride—No. I was involved in one week of that tour, last week, through the northern tablelands. I have not heard banking raised as an issue in those local government meetings. Drought has obviously been a preoccupation, as have things like natural resource management and other issues that are more state-local government interface issues. Banking services were not raised while I was on the tour and, to my knowledge, not otherwise on this occasion. They have a lower profile, for various reasons. There are some other more immediate issues to deal with, such as drought. When there was a lot of excitement or aggravation about this issue—when it reached its height—was probably during the period of rapid and large volume bank closures, which caused major disruption and major dislocation in communities across the board, all in a relatively short space of time. Also, some alternatives have developed since that period, and people have adapted.

CHAIRMAN—What is your view of the rural transaction centres system? Do you think it has been successful? Are there areas that need improvement? If it is a successful model, what are the impediments to further expansion of that system?

Mr McBride—We have not done a full review on that, so I can only give you some observations. As I said earlier, it was slow getting started. It was probably optimistic; things often look a lot easier in the program development stage than they are in the implementation stage. However, it seems to have gathered some momentum.

I think there were some practical difficulties in that, given the sorts of conditions they were established under, they could not provide services that competed with any existing service provider in town. This was quite a legitimate constraint, because it would just undermine another business in town instead. That often made it difficult to get a viable combination of services that you could deliver in order to make the RTC ultimately self-funding. That they were to be self-funding after a relatively short period of time was probably a factor that would in itself potentially undermine their success. I think in some areas it was never realistic to expect them to be self-funding—maybe contributing significantly to their cost, but never fully self-funding.

Senator MURRAY—Telstra is a commercial organisation and it has CSOs put on it. It is interesting, of course, that some of those CSOs actually end up subsidising commercial opportunities for others—the provision of better Internet banking facilities benefits the banks, but Telstra pays for it. In many respects, Telstra’s CSOs are quite easily measured. I have not been able to make up my mind whether the prime deficiency in financial services is that of the availability of basic financial services—the ability to deposit and withdraw cash and make basic financial decisions—or that of the provision of local expertise. I think that, for a CSO obligation that is applied to the provision of basic services—you must have a branch for so many people or you must at least provide certain services—the minima can be established, but the less tangible area of quality of local financial expertise available to the community is harder. When you talk about the abilities of government to lay down a CSO as a condition of a banking licence, which is perfectly possible, how would you see that kind of introduction being done? Where would you see the emphasis lying?

Mr McBride—I think in that respect it could only really address the minima—the basic level of services that we expect you to deliver for the privilege of operating a network in Australia. It would probably be in the same sense as the Australian tradition of basic minimum standards that we expect to deliver to all Australians regardless of where they live, like the universal postal service and pricing and education standards. We go to great lengths to provide at least a certain standard of telecommunication service and we have done for decades. Many countries would not have had the network that Telecom had.

Senator BRANDIS—It is a bit different with banks, isn’t it, because, apart from the availability of banking services, which is largely but not exclusively a matter of locality, what banks do is lend you money. They may or may not lend you money, depending on their lending guidelines and your own financial circumstances. It seems to me that, because of the nature of the business that banks are in, the standard of delivery of their service cannot be measured quite so easily against a universal standard, because they make a judgment as to whether to engage with each particular customer in a way that sellers of other services or goods do not. So how do you measure a universal common standard, having regard to those considerations?

Mr McBride—I was talking primarily of transactional services, which are about access to cash and so on. Modern banking credit decisions can be very remote from—

Senator BRANDIS—So you are confident about community service obligations as limited to transactional services?

Mr McBride—I would not limit them to those services exclusively but I would say that beyond that level the area becomes a lot more fuzzy.

Senator MURRAY—That is really where I wanted to go with this. I think you are probably right that a CSO can lay down functionality—if you get a banking licence, you must do certain minimal things—but some evidence we have had to this inquiry, including from the earlier witnesses, is that the need is for a far more proactive policy. I thought the previous witnesses had real deficiencies in their case because of the lack of research data, which is not necessarily their fault. The first proposition they put was that for deprived communities you need proactive policies that enable people to get out of welfare dependency and become better functioning communities. The second proposition, which they did not put as strongly but which was quite well expressed in the Westpac submission, was that you need services that provide the means for businesses and people with productive capacity to maximise that on a local basis. I find it difficult to conceive of a way in which you could construct a CSO to govern those two areas.

Mr McBride—I agree that that would be very difficult, particularly on a sustained, long-term basis. A bank may choose to undertake that role at a particular time because it has chosen to adopt that as part of its corporate philosophy or whatever, but I do not think you could ever enforce their maintaining that as part of their own business. While highly desirable, I do not think that is realistic, particularly for private sector owned banks. It is something that perhaps a credit union can do more easily, given that it has objectives other than profit and is inherently community based, and building societies, probably now to a lesser extent, given that they are tending to diminish in number or be absorbed by banks. Again, they would probably have more of a community focus and would invest more in the community because their life and their corporate systems were part of the community.

Senator MURRAY—Have you considered whether the creation of a government instrumentality might do that job better—for instance, a very targeted, very focused regional development bank owned by governments, or some institution that is dedicated to the provision of essential, proactive policies which commercial organisations, whether credit unions, banks, building societies or anything else, might not be competent to do?

Mr McBride—That is probably in the direction I was heading. I think if you were to deliver those other types of broader services to rural and remote communities there would need to be some kind of government involvement, be it in the way of a government funded community service obligation, directly through government agencies or through government agencies contracting other organisations, both community based and commercial, to get the required expertise. There are a number of small programs. A common complaint is that the big end of town, the large banks, are not interested in investing in or lending to the smaller communities, that they are big city focused and do not look beyond that. I have heard anecdotal evidence that it is hard enough for a large business to get a loan in Liverpool, let alone anywhere beyond Liverpool and Western Sydney. It is purely a perception thing.

There have been programs—minor programs—put in place from time to time to try to address that. I think there are a couple running at the moment. They have usually involved state government agencies, or sometimes Commonwealth government agencies, through their regional development agencies. They try to create investor readiness and to help businesses and small enterprises put together better programs or better submissions for funding by giving them professional advice and by coaching them to develop better business plans, put together better credit applications and so on.

Senator MURRAY—It struck me, having listened to the representatives from the Commonwealth Bank, that they are able to provide quite extensive and rounded service because they are able to ride on the back of a government business enterprise, which of itself cross-subsidises rural areas on the back of profitable urban areas. The 50c stamp is an example of exactly that; it is more expensive to conduct postal services in the country than in the city but they both pay the same price—I think rightly so. It may be that the committee will have to consider whether the government should have a mechanism by which commercial operations can piggyback off it at lower cost and therefore make it affordable and useful to them. But that requires a combination of policy and CSOs on the physical provision of facilities.

Senator BRANDIS—I wonder if it is that complicated though.

Senator MURRAY—I do not know. The question I want to ask is whether local government associations, given their concern for rural infrastructure, have ever looked at this and whether that kind of sharing between government and private enterprises has been thought through or contemplated.

Mr McBride—It has been, on a number of occasions, and is still contemplated regularly. Codelivery is considered the way to deliver services economically. Aggregation of service delivery is a model that many councils are moving to. It has most commonly been done with delivery of other government services. For example, many councils in country New South Wales also act as agencies for the Roads and Traffic Authority, doing licence renewals and things like that, and for CountryLink rail services, selling tickets. Such services are often delivered through a council. Many councils were considering becoming, and a couple did become, agents of banks to codeliver banking services. In one case I am thinking of this was along with the CountryLink and RTA services; they were all delivered out of the council premises. Councils have frequently shown themselves to be willing to take on, or codeliver, private and government services as part of a local solution. They are receptive to that type of facility.

Senator BRANDIS—I have an observation, arising from Senator Murray’s question, that you might care to comment on, Mr McBride. I cannot immediately see why other banks could not seek to enter into the same sort of relationship with Australia Post as the Commonwealth Bank has. At the moment, it is obviously an exclusive relationship, but there is no reason why a non-exclusive relationship could not be negotiated the next time that contract comes up for renewal. Australia Post infrastructure obviously gives the Commonwealth Bank a greater capacity to reach into rural and remote communities than the other banks have through their co-located facilities or joint agency facilities. Would you agree?

Mr McBride—I would think that is true. The Australia Post network is probably the most extensive network.

Senator BRANDIS—Would you like to comment on the efficacy of the RTCs, the rural transaction centres?

Mr McBride—We have not been involved in any review of the RTCs. I have only anecdotal evidence. I am not sure how many have succeeded and how many have failed; I have heard of successes in different places. Councils advise that they are usually quite pleased and quite proud when they have got one established in places like Bingara—the smaller communities. The model itself is probably a very suitable model for helping to maintain or provide services to very small communities. It would be limited in its application beyond very small communities. As I said, one of the problems with the very small communities was the requirement that they become self-funding within three years or whatever it is. I do not think that is always achievable given the market size of those communities and so on. Nonetheless, local government has seen it as a very positive program in principle.

Mr CIOBO—Mr McBride, you have made comments about CSOs, we have explored the architecture of what should or should not be in the CSOs, and Senator Murray touched on ways in which we would fund it. I will ask you outright, because you have made it clear that you believe it is a failure of the federal government to embed the CSOs as part of the licensing of banks: how should CSOs be funded?

Mr McBride—As far as terms of minimum standards of service delivery and representation go, I would think that that would be part of the price of the privilege of operating a banking enterprise in Australia, given that it is historically a profitable market.

Mr CIOBO—So passed on to consumers, in other words.

Mr McBride—Yes. It would inevitably involve some element of cross-subsidy within the bank.

Mr CIOBO—So, at the moment, what prevents local governments from imposing on their rate payers a higher rate which the local government of the day could then pass on to the banks to ensure that they had the facilities to which you are referring?

Mr McBride—In New South Wales we have rate pegging, so we do not have that option. We can only raise rates by the amount determined by—

Mr CIOBO—But you can introduce other charges and levies, I assume?

Mr McBride—They could, but I think that would be unnecessarily messy and also—

Mr CIOBO—Is it any more messy for local governments in New South Wales than it is for anyone else? Or would you seek to expand the net so that all Australians subsidise the services to which you are referring?

Mr McBride—That is the point I would be getting to. Local government represents small communities and the communities in need are often the ones with the least revenue-raising capacity to subsidise those services. I think it is a principle in funding welfare or community service obligations generally that they need to be spread across the broader tax base; otherwise it is an unfair burden on one smaller segment of the community, and it might already be the disadvantaged sector.

Mr CIOBO—I just want to make that clear. So you would want to expand the cross-subsidisation so that, in those communities where they are not currently in existence, you have consumers across Australia subsidising the provision of bricks and mortar services and those types of things that we have been discussing?

Mr McBride—Right.

Mr CIOBO—Would it be fair to say too, though, that regional and rural clients of banks have been the beneficiaries of the more efficient banking system that we currently have as a result of—unfortunately, in some instances—bank closures and those types of things and rationalisation of industry?

Mr McBride—I am not sure they have been the primary or major beneficiaries of that. Again, I am not in a position to re-survey that situation but I would think it unlikely. It is probably hard to generalise. I can see a point you might be getting to in that a large agricultural operation—a large farmer, even, or a large agricultural business—might be better serviced now in those areas through electronic banking mechanisms and will often also have the privilege of having an agribusiness manager or whatever who works on a regional basis calling on them occasionally. That person—and I have known people in that position who have been our own executives in the past—would certainly have no complaints and would be quite happy with the way things currently are. But a smaller farmer on a much smaller family type farm, which is a much smaller business, smaller businesses within the country towns and communities, country workers or just regular members of the community who work in service industries and support industries and so on, I would not necessarily say are better served. I think it depends on the type of needs you have and the scale of your needs.

Mr CIOBO—I was alluding to, for example, low interest rates—not in terms of economic policy but rather through increased competition; the fact that you have lower margins on credit cards, home loans, et cetera, which I would expect are universal in terms of the benefits provided through that increased competition which, in my view, has been the consequence of the more efficient banking system. I just wanted to make that point on the record, too, because sometimes you run the risk of being perhaps a bit parochial in terms of looking at the negatives without necessarily paying due consideration to the advantages.

CHAIRMAN—There being no further questions, I thank you both for appearing before the committee, for your evidence and for your answers to our questions.

Proceedings suspended from 1.10 p.m. to 2.04 p.m.

LOVNEY, Mr Adrian, General Manager, Industry Association, Credit Union Services Corporation (Australia) Ltd

PETSCHLER, Ms Louise, Head of Public Affairs, Credit Union Services Corporation (Australia) Ltd

CHAIRMAN—I welcome the representatives of the Credit Union Services Corporation to the hearing. The committee prefers that all evidence be given in public but if at any stage you wish to give any part of your evidence in private you can request that of the committee and we will consider your request to move in camera. We have before us your submission, which we have numbered 109. Do you wish to make any alterations or additions to the submission at this stage?

Ms Petschler—No.

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

Mr Lovney—We appreciate the opportunity to contribute to this important inquiry. Credit unions have for a long period of time been committed to the provision of services in rural and regional Australia. We see opportunities such as this inquiry as invaluable in exploring some of the constraints that we face as an industry in building on that strong record. For the record, obviously we have appeared in many different forums before this committee previously, but CUSCAL, as the peak industry body for the credit union sector, provides a range of commercial and industry association services to credit unions. We represent over 90 per cent of the Australian credit unions, with a total number of about 168 to 170 affiliates out of the 190 credit unions in Australia. Our part of the credit union system represents collectively 3½ million members and around $25 billion in assets.

As I said, credit unions have a strong tradition in delivering services to rural and regional communities through continuing to operate the branches that we already operate but also through opening new branches, particularly in areas where banks have moved out. We think we have demonstrated our commitment. In fact, the Prime Minister recently described the credit union industry as a great mate to country Australia, which is something we are very proud of. Our commitment to rural and regional communities is premised largely in our mutual status. We are obviously a not-for-profit industry, which is not to say that we are not interested in making a profit, but that is not our principal purpose. With that as a starting position, and the unique relationship we have with our members, it means that we are often not forced to take the same sorts of business decisions that our colleagues in the banking industry are forced to take in order to do things such as pay a return to their shareholders.

We have a strong set of values and ethics that underpin our work. They are documented in an industry-wide agreement, a copy of which has been provided to you. Our customers overwhelmingly report strong levels of satisfaction with the services we offer. This is reflected in independent surveys such as the *Choice* magazine surveys in 2000, 2001 and, most recently, 2002. Also, market research conducted by Eureka market research says that eight out of 10 of our credit union customers report the level of service as being excellent or outstanding, compared to three out of 10 major bank customers.

Louise will talk in a bit more detail about some of the constraints we face but, before she does, I want to reflect the sort of coverage we have in rural and regional Australia. Over 70 credit unions base their activities principally around rural and regional areas, principally outside metropolitan areas and with a particular focus on serving industrially bonded membership. Our research shows that in towns such as Narromine, Broken Hill, Moe, Orange and Tamworth nearly 50 per cent of people are members of credit unions. In other smaller communities such as Trangie, Evans Head and Mungindi, as we have said in our submissions, our data shows us that over 75 per cent of the population are members of a credit union.

We have a strong commitment to maintain the service levels in those communities where banks have moved out, and also to open new branches. We have done that principally through the CreditCare program, which was jointly funded by the New South Wales government and Commonwealth government to assist credit unions and other financial providers, such as building societies, to work with local communities to identify opportunities for new banking and new financial services outputs. That program resulted in the creation of over 60 new credit union branches in areas in New South Wales and throughout Australia where they did not exist previously. We have documented that in our submission and we have got some views about how the CreditCare program has turned into the RTC program and about some areas where that might be improved upon.

In our submission, we have outlined a number of credit unions that have opened branches in particular areas and are working with local, regional groups to improve service and access through regional development opportunities and through new bodies, such as First Nations Australian Credit Union, which has been established through Australian National Credit Union to provide services to Indigenous communities that do not have banks. Through those initiatives, we are responding to some of the concerns that have been raised about banking services to Indigenous populations and about some of the practices, such as book-up, where local vendors and suppliers who are often the only supplier of cash into these populations supply it at sometimes outrageous rates.

We want to move on and talk about some of the issues that we face. One that comes to mind, and that will be familiar to many of you, is the issue of regulation. Credit unions, in principle, are generally supportive of areas of regulation which benefit our consumers. By definition, we are interested in looking after our members and interested in issues like disclosure. We often find ourselves siding with the consumer movement on some of the contentious areas of regulation that are proposed for the banking sector because we are, as mutuals, by definition interested in protecting the interests of our members. For example, we support the UCCC, the uniform consumer credit code, and some of the enhancements that are proposed to that. We support FSR, in principle, because we think that better practice, better licensing and better disclosure will support consumer decision making. We support strong regulation, in a prudential sense, of the deposit-taking system, and we also support important things such as the Centrelink code of practice, the electronic funds transfer code of conduct and the credit union code of conduct itself.

Our concern is about the often overlapping nature of these instruments. On their own, we have no argument with them. Our perspective is that these regulatory measures are often proposed in response to a particular concern from one part of industry. The nature of government is to intervene, and in the case of banking this occurs at the state level and at the federal level. As an industry, we often find ourselves facing complex and overlapping sets of requirements. An example is disclosure requirements. They would benefit from a more holistic understanding and appreciation of how they impact, particularly in the case of smaller institutions, where they have a disproportionately large impact on costs and compliance costs. Disclosure obligations for financial services customers are regulated by the Commonwealth by ASIC, through the EFT code. ASIC also requires that credit unions have a code of practice which regulates disclosure. The Financial Services Reform Act lays on top of that another system of disclosure relating to financial services generally. The uniform consumer credit code sets out disclosure requirements in relation to the provision of consumer credit, and we have just seen amendments to that in some jurisdictions, most notably New South Wales, that overlay yet further disclosure requirements for the provision of consumer credit under fixed term contracts. Individually we support all of those requirements, but collectively they have an impact on small institutions.

You will be well aware of our longstanding concerns about FSR. In fact, this committee has on a number of occasions found that FSR and its roll-out would have an impact on smaller institutions in rural and regional areas, and you have twice recommended that basic deposit products be removed from that regime.

CHAIRMAN—Three times, I think.

Mr Lovney—ASIC has gone some way to responding to some of those concerns but we think it is strange, in the face of recent consternation about the practices of financial planners, that small institutions are having to put so much energy into complying with new requirements under FSR for products which are essentially capital guaranteed. They are well understood by their members, and there is little or low risk. We are getting on with the job of implementing FSR, but those regulatory and compliance costs divert us from other things we might be doing, such as servicing regional communities.

The final thing I want to touch on, before handing over to Louise, is the area of discrimination, which we have touched on in our submission. The government, through the Wallis inquiry and subsequent amendments to the Banking Act, decided to create a one-size-fits-all approach, a single regulatory system for banking institutions. It says that banks, building societies and credit unions are to be treated equally by the regulatory regime and are to be seen as equally regulated. Despite that, disappointingly, some five years down the track we still come up against quangos—entities that are established by government under subordinate legislation—such as the Victorian Legal Practice Board, and others we have named in our submission, which think it is appropriate today to continue to flatly refuse to allow credit unions, and other small ADIs, to provide services to their members.

In the case of the Legal Practice Board, we have a number of solicitors in regional and rural areas where there are no banks who want to bank with their local credit unions. But the Legal Practice Board says, ‘It doesn’t matter what APRA says; it doesn’t matter what the government says. We don’t think that credit unions are safe, and we require people who hold funds on behalf of legal practitioners to have a Standard and Poor’s rating or a Moody’s rating of AAA or above.’ Surprise, surprise: there are only four institutions that fit that category. So such opportunities for credit unions, and indeed building societies, in smaller areas are being denied by some agencies who continue to perpetuate discrimination against smaller ADIs in the face of the government’s view that they should be treated equally. I offer that to you as an example of how credit unions are continuing to slowly build up their presence in regional and rural areas and are being denied really good opportunities to support local businesses and to profit together. I will now hand over briefly to Louise, who will talk about a couple of other issues and then close.

Ms Petschler—I will touch briefly on three other issues we think are relevant to regional service delivery and the role of credit unions there. Flowing from Adrian’s points about discrimination, we are concerned by the inertia within the banking system and our inability to encourage people easily to transfer accounts between financial institutions. We see time and time again, in our satisfaction surveys and through independent commentators, such as the Consumers Association, that very few customers, despite being very unhappy with their banking services, will transfer their accounts to another provider, such as a credit union.

Our concern in looking at this issue is that there are actually structural impediments to people being able to easily transfer their accounts. That results from the stickiness of direct debits and the problems that consumers have experienced there, all the way through to periodic payments of other types, payroll issues and being able to easily transfer information between institutions. When we look at the banking sector in the UK, we see that the major banks there have taken initiatives that are about assisting consumers to move between institutions much more easily. They have introduced customer mandates that enable information to be transferred between financial providers, and they also guarantee to meet certain time frames in ensuring, for example, that direct debits are wound up quickly and transferred to another institution.

Given a fair degree of inertia within the deposit-taking sector in Australia, this is an area that we think would really profit from competition and choice and would be of assistance to us in our efforts to move into regional areas that the banks have left. We have suggested in our submission that ASIC might have a useful role there through its consumer protection functions, perhaps by convening an industry working group. We have not seen a great willingness on the part of the major banks to work with us on this. I appreciate their point of view, but it seems to us that there would be benefits across the deposit-taking sector were ASIC to look at whether there are actually impediments to people being able to exercise the choice that they have in that market.

As Adrian has touched on, credit unions in regional areas have a number of unique characteristics. Some of those are relevant to our ability to raise capital. As mutuals, credit unions do not raise capital on the wholesale markets, so we are constrained in our capacity to grow services in areas where we might place some pressure on our regulatory minimums, and we must fund growth out of retained earnings. That can make opening a branch or a service in an area that the banks have left a difficult proposition.

We have seen some examples where local government particularly is working to invest in credit unions with some subordinated debt instruments that can count towards regulatory capital. The industry as a whole is looking at other forms of capital instruments that will support our growth and our capacity to meet the communities’ expectations of us in those areas. We are encouraging the committee to support and look at those, and governments generally, at local, state and Commonwealth level, to work with us to try and resolve some of those issues. Our mutuality is our point of differentiation and our strength, but there are drawbacks which relate to our ability to fund our growth and new services on the capital side.

We are aware also that the committee has been looking at options for shared service delivery. We noted the recommendations and the legal advice that the Australian Bankers Association has provided on the implications of the Trade Practices Act and financial services reforms. We do not disagree with their interpretation. We have a slightly different focus, which is to encourage any initiatives about shared service delivery to be developed with the input of the smaller players in the market—credit unions and building societies—which are out there in the rural and regional areas and are working with those communities. We feel that that is important in terms of making sure that the model does not become, for example, potentially a low-cost option for closing more branches. That is a concern that emerged in the UK during the shared services trial that the bankers association there is conducting.

Our message is that we think there are many opportunities to reduce costs through cooperative mechanisms in country areas. We look at cash handling costs for credit unions as an area where we would like to have a more cooperative relationship with the major banks, particularly where we are servicing areas that the banks have left. We encourage government to develop any shared services options in a framework that includes input from smaller players—the regional banks, credit unions and building societies.

The final issue I want to touch on briefly, which Adrian alluded to, is our experience in terms of CreditCare and, after the CreditCare program finished, the RTC program—the Commonwealth funded program to bring transaction centres into regional communities. As we have outlined in our submission, the CreditCare initiative was about entering no-bank towns and encouraging a financial services providers to come into those communities where it could be shown that there was community support and the business model was viable. That was a relatively modest program that ran for five years with funding of about $6 million. It opened 58 financial services agencies and/or branches, mostly from credit unions, but we also had participation in that program from a couple of the banks and some building societies.

We saw the constraints on CreditCare which essentially relate to the costs I was referring to earlier. CreditCare did not cover any of the start-up costs or the initial seed funding for institutions to open those services in those smaller communities in the regional areas. That was a real constraint on the capacity of the program. It had reached the point where there seemed to be limited opportunities for the sector—largely, the credit union sector—to continue to open those services without some additional support for some of the infrastructure and start-up costs.

The RTC program appeared to offer a much better funded model that would enable some of those issues to be addressed. We continued to work with the RTC program. We have 14 credit unions operating in existing rural transaction centres and we have another seven RTCs where credit unions are working with communities to be the financial services provider there. But our experience with the program has been that while in theory it is a great initiative, and it is well funded, in practice there are constraints in getting those services out to communities. We are concerned that a number of RTCs appear to offer very limited services and do not offer financial services. We consider the provision of a financial service in an RTC essential to its viability.

Based on our experience from CreditCare and our involvement with the RTC program, we have suggested in our submission an expanded model which would look at aggregating some of the initiatives and services that RTCs can offer, and at creating a network where they could use their bargaining power to attract more services to negotiate with government agencies at state and Commonwealth level to deliver a more viable range of options. We have suggested some streamlining of the approval processes that are currently in place.

The final thing that I would note on the RTC program is that for existing RTCs there is some uncertainty about the support that will continue for them at the end of the program. Our experience is that, whilst many of those RTCs are operating very effectively, there continues to be a need for a government program that oversees and coordinates some of those initiatives and assists those centres. It would be a tragedy if those communities that had fought to get services back to their area lost out because of the lack of a coherent strategy or a strategy that continues to be funded post mid-2004.

They are briefly the main issues we initially wanted to raise with you. As you know, we have given you a submission with many attachments and a lot of material, but we were keen to demonstrate that credit unions really continue to be a major financial services provider in country Australia. It is a commitment we are not going to shy away from, and we will continue to deliver in that area, but we do face some constraints in our capacity to deliver those services effectively.

CHAIRMAN—Thank you very much to both of you. You referred to our previous recommendations with regard to basic deposit products and the FSR training requirements. As you indicated, we are aware that on 22 January ASIC released a revised PS 146. Can you tell us the extent to which that alleviates the problems that have been highlighted in our earlier inquiries on that issue?

Mr Lovney—It certainly goes some way to acknowledging the problems that had arisen through the interpretation of 146. We think that ASIC had already started to see some of the impacts of the lack of clarity that was inherent within 146 when it was first written. They have tried on a number of occasions to encourage credit unions and financial institutions to exercise restraint and some commonsense when they were making training decisions. Our principal concern with 146 as it was written was that it enabled training providers to, in effect, have the whip hand themselves, and they were dictating what requirements institutions needed to fulfil. I think the advantage in the new model is that it allows institutions to make some of those training decisions for themselves and to make an assessment of how they want to train their staff.

We think it is regrettable that there was a two-year period and we were one year into the transition period before that fundamental change was made. Equally, the streamlining provisions that have been proposed offer considerable benefit and flexibility to small institutions but, in effect, do no more than reinforce what was in fact the government’s original intention when the bill was passed by parliament, as evidenced by the statement of the minister at the time that institutions that are already licensed should not have to go through the process of getting a new licence. That, we hope, is now reflected in the streamlining provisions but was not previously.

The other principle that was supposed to underpin the FSR regime was that it was supposed to be proportional. We think it is much more imperative, and I think that recent research has shown that there is potentially more consumer damage occurring in some parts of the financial services sector than in others, yet we were concerned with the FSR regime in the sense that it attempted to treat all the players equally and did not adequately recognise that basic deposit products were essentially low risk and well understood. We think the changes have gone some way towards ameliorating some of those risks but we think the FSR regime is still a significant impost for some institutions which are in effect just deposit and loan providers.

CHAIRMAN—You also make reference to the practices of banks, when closing a branch, to entice customers to remain with them, which you say leave smaller ADIs such as credit unions with transaction-based less profitable business. Are you saying that the banks devise a way in which they can take their profitable customers with them, in toto, and that therefore the customers they leave behind are the ones that are transaction based; or that they just take the profitable business of the customers and leave the customers to do their transaction based activities with credit unions? Could you clarify what you mean?

Ms Petschler—We have seen a variety of practices in communities across the country where banks have closed branches. Obviously, we are seeing fewer branch closures at the moment than we have over the past five years, for example. But it has been our experience that, where credit unions are either remaining in a community where the banks have withdrawn their major service if there were one last bank left or are going into a community where the majors are leaving, the banks would cherry-pick their more lucrative customers, which generally tend to be business customers and some of their higher net worth customers, and take that business with them to either the nearest larger regional centre wherever the new branch is or by providing, for example, personal bankers over the telephone who would be able to give them a transition period to manage not having a branch in their area. That is an issue where, in effect, the credit union or service provider that has gone into that community ends up wearing the costs of being the cash point, if you like, for that community and picking up the business that is left but losing the opportunity to attract that business. Part of it is about sweetheart deals that are offered for a period, which might be reduced interest rates on loans or just very effective marketing on the part of the banks, or perhaps their products are more suited to that customer. The credit unions that have opened in those areas report that it is a struggle for them and they do have a sense that the bank, in that instance, would get the best of both worlds. We are not seeing as many branch closures now from the major banks as we have previously, but in our experience up to this point that has certainly been the case.

CHAIRMAN—So they do not take with them those customers who have relatively low deposits.

Ms Petschler—They do not seek to aggressively market to keep them. They would like to keep everyone and then move everyone to the nearest branch and they would keep everyone’s business, but they do not seek to selectively target—that is our perception—those customers who are most lucrative for their business, which from their point of view is of course the logical approach to take.

CHAIRMAN—You also referred to constraints on the ease with which consumers can transfer funds between financial institutions. Can you enlarge on that?

Mr Lovney—There has been a wealth of research in the United Kingdom, principally coming from the Cruickshank inquiry, which looked at stickiness of accounts. Despite the fact that in the United Kingdom there are many more programs put in place by the banks to help their customers switch and a number of different features to their banking industry that make it easier for them to do so, even in the United Kingdom customers stick to banks. Despite reporting poor levels of service or dissatisfaction with levels of fees and charges, there is a certain amount of inertia that characterises that relationship: they stay where they are, even when they are unhappy to do so. With things like home loans and the length of time and the costs that are involved in switching those home loans, I guess that is not unexpected. But even in areas such as transaction accounts, things like payroll deductions, direct debits, direct credits and standing authorities on credit cards, where you might expect people to be a bit more flexible, it is much more difficult for customers to move accounts and that inhibits competition.

In Australia, there has been very little research done into the impact of portability and whether portability measures might improve competition in banking. It stands to reason that we would not be surprised to see those figures equally as high in Australia as they are in the United Kingdom. We think it warrants some further research. The analogy that we have used is with mobile telephones. The government put in place a number of different providers but found that the system did not work because people did not want to lose their mobile phone number. The evidence showed that, as soon as you put in place a system that enabled people to take their mobile phone number with them when they went to a new carrier, the competition in the system worked much more effectively. We wonder whether, if you put some mechanisms in place to make it easier for customers to shift from one banking institution to another, the system might not in effect work in a more competitive way. We are encouraging that ASIC be requested to conduct some research on portability in Australia as part of its broader consumer protection role.

Senator MURRAY—I would like some clarification. When customers start an account they have a 100-point check. Do they have to redo the 100-point check when they move?

Mr Lovney—Yes. Clearly, there are obvious reasons why you might want to have some of those provisions in place. In the current environment, measures to reduce the level of checking around personal identities might get short shrift, but that is one of a number of ways in which customers are tied to their existing institutions. Yes, you are right: customers do need to do a fresh 100-point check every time they move institutions. They need to change their payroll arrangements. If they have direct debits for their invoices and bills, they need to move those as well. They also have to take into consideration credit cards and stamp duty. All of those things make it more difficult for customers to move from one institution to another.

CHAIRMAN—The issue you are raising here is the capacity of the customer to effectively close an account at one financial institution and open a new one at another—

Mr Lovney—Yes.

CHAIRMAN—rather than having accounts at both and transferring funds between the two. That is not an issue.

Ms Petschler—No, that is not an issue now. The system of third party transfers is pretty much rolled out everywhere at the moment.

Mr Lovney—For example, in the UK, one of the measures proposed was that banks face a penalty: they were given a set period of time—I think it was 10 days—in which they had to have all of these arrangements finalised, and the review of the code of practice recommended a £50 penalty for those institutions which did not manage to get the paperwork completed within that 10-day period for that switch to occur. So that provided some incentive for institutions to do the right thing. With all things being equal, we would argue that that frees up the system. If banks and larger institutions, or indeed credit unions, think they offer better service, it becomes more open for them to demonstrate that in practice. The current arrangement does not offer those alternatives.

CHAIRMAN—As I understand it, in the middle of 2001 the number of credit union branches was 1,100. How many of those are located outside metropolitan areas?

Ms Petschler—I do not have that statistic with me.

Mr Lovney—We can get that information to you.

CHAIRMAN—Also, can you tell us whether the numbers have increased or declined in non-metropolitan areas over the last five years.

Ms Petschler—What we have seen in face-to-face accessing in the credit union sector is a relatively stable level at both branch and agency representation. We have not seen a decline. We have opened branches which you would see reflected in the CreditCare program and RTC participation, which are in more remote areas. On the statistics that CUSCAL holds on the representation of credit unions and their branches and outlets, we have not seen a major shift at all. We have seen a fairly steady trend in the aggregate figures.

CHAIRMAN—How effective has been the use of agencies by credit unions to extend their services in regional Australia?

Ms Petschler—Credit unions have always relied very heavily on agency networks. For example, the old industrially bonded credit unions would use agencies that were in those workplaces. Teachers credit unions still continue to use staffrooms as a form of an agency to provide information to members and collect submissions. Because of the smaller size of credit unions and because we have never had a branch network that would rival that of the major banks, we have always relied very heavily on agency outlets. We have a range of different agency arrangements across the country. Arrangements for a regional community based credit union would be different from those for a metropolitan credit union or for an industrially bonded credit union, like a teachers credit union. But they are a critical part of our access points and the ability of our members to get in touch and interface with that credit union.

CHAIRMAN—It was my understanding that, in a number of areas, agencies were stepping in to replace bank branches where there had been closures. Yet attachment 4, ‘C05 Points of Access to the Australian Payments System’, actually shows quite a significant decline in agencies over the last decade, including non-bank agencies. Can you explain that, in light of the perception that agencies have been taking over from branches?

Mr Lovney—I guess we continue to have trouble with some of the trends that are thrown up by this data. This data set, as I think APRA acknowledges, is settling down. There have been some definitional changes in how things are assessed which means that, sometimes, we wonder about some of the trends. In fact I think the data actually portrayed credit union branches as declining this year when that is not the case. So APRA acknowledges, and we as an industry acknowledge, that this data set is based on credit unions and institutions declaring information; it is a self-return basis. As the data set settles down, it will start to be more reliable. I think one of the factors that has caused differences in how agencies are counted is the expanded use of giroPost and how giroPost is captured by this system. GiroPost is used by Australia Post to provide remote access to banking accounts by various issuing institutions. I am not sure how giroPost is captured in this but I suspect that might be one of the reasons for the fluctuation in agency figures. I do not know.

Ms Petschler—In our sector we have seen some reduction in agencies in different areas as result of mergers. We are expecting that we will continue to see merger activity in the credit union sector. If you look at some of those graphs about the decline in credit union numbers versus growth in assets, we think that FSR will be another driver of increased merger activity for credit unions. We do see some rationalisation of agency networks in those instances, but not much. As I say, CUSCAL's own database shows fairly stable figures for face-to-face access.

Senator BRANDIS—Mightn't merger activity have the effect of diverting regionally based credit unions away from their regional business?

Ms Petschler—We do not anticipate that there will be merger activity on a scale that will change the general shape of the credit union sector. I think we will continue to see a range of different credit unions at different asset sizes and in different locations. We have had some mergers of regional credit unions which have retained their own identity. We have seen different structures which are about easing compliance costs; for example, the Canberra credit unions which continue to offer their services to their own membership base but are aggregating their back-office functions. We do see a range of models.

Senator BRANDIS—One of the things coming through loud and clear to me from your submission is that one of the virtues of your sector of the financial services industry is a greater capacity to be localised and, for our purposes today therefore, regionalised. I would have thought that, almost inevitably, as there are mergers and as a credit union grows larger a centripetal force will take it away from some areas of its regional business.

Mr Lovney—We have not seen any evidence of that to date. What we have seen most commonly in mergers to date is that institutions with branch networks that overlap rationalise: if they have two branches in one town or two branches quite close to each other, they merge those branches. We have not yet seen credit unions withdrawing to the cities, although there is, I guess, increasing pressure to stabilise and maintain capital levels. So to search for greater efficiencies there certainly is a tendency to look for cost savings. Our own internal data does not show that reflecting a shift away from the regions into the city, because the cities are, in some senses, quite overbanked anyway. In fact it is a strong point of differentiation for us to remain in the regional areas where we do have that strong presence.

Senator BRANDIS—Say, for example, there is a credit union in a particular region of Australia which merges with another. Are you aware of any instances where there has been a withdrawal of services or branches from some of the smaller towns or centres in that region as a consequence of the merger?

Mr Lovney—Yes, I imagine that there would be some places where branches are unviable. I am not aware of any in particular, but I would be surprised if there weren't a handful of branches—particularly a couple of the new RTC branches—where the volume has not been delivered as expected. This is principally due to the fact that there is no customer base there because the customers are locked up in arrangements with banks—Louise has talked about this. There have been a couple of cases where RTCs have opened and then closed again, but I am not aware of any particular cases of institutions merging and withdrawing services.

CHAIRMAN—In relation to mergers and the issue of local financial institutions, the Australian Centre for Co-operative Research and Development argued that there should be greater flexibility provided in the legal and regulatory structure to allow the creation of locally based credit unions, yet the ones that already exist are merging, again taking the focus away from that local orientation. Is there a contradiction between what ACCORD is arguing and what is happening in the real world as far as credit unions are concerned?

Mr Lovney—There certainly is. Whilst credit unions and many members of our group would love to be opening new branches, pressures that are being placed on them—variously from compliance through to FSR through to the increasing attention that is paid to the activities of some of these smaller institutions by APRA—have meant that they have needed to stabilise and consolidate their positions. There is a tension between a natural tendency to expand to meet the needs of the service and the need for the business to be stable and robust. That is a clear example of where increased compliance costs result in decreased regional services.

CHAIRMAN—As I understood what ACCORD were saying, they were not even talking about existing credit unions opening new branches—as I think you have just been referring to—but, in fact, to the creation of new small credit unions.

Ms Petschler—It is an extraordinarily difficult proposition to open an ADI. CUSCAL continues to work with groups that would like to come together with a common bond to form their own cooperatively managed credit union, but it is a very difficult proposition, and the regulatory requirements on that start-up would be considerable.

CHAIRMAN—To an even greater extent than the regulatory requirements, isn't the state of technology such that you probably need a certain size to derive some economies of scale to make a credit union viable?

Mr Lovney—That is right, but more basically you need to have a sufficient amount of free capital. By definition, credit unions cannot raise capital from the marketplace, so a new institution has to have an amount of capital sufficient to meet its regulatory requirements and sustain its operations until it can start to support itself. There are not very many small institutions or groups of people with the wherewithal to do that. More commonly, large credit unions or credit unions that are relatively well capitalised will make a decision to open a new branch and employ some of that capital. It is notoriously difficult to start a new credit union. For just that reason, we have seen very few places—a handful of them—in the last decade or so where new credit unions have opened.

CHAIRMAN—ACCORD seemed to be arguing that those prudential requirements should be eased to some degree to make it easier for the new small credit unions to be established. Is there a point at which you run the danger of inadequate consumer protection as a result of relaxing those requirements?

Mr Lovney—We certainly would not argue for any easing of prudential requirements in relation to new credit unions. Consumers have an expectation that their deposits will be safe. There will continue to be a tension between a regulated industry and its regulator. We are seeing some of that playing out now and have seen that for the last year or so. But we would not be arguing for a substantial lessening of those regulatory requirements, because we think that it is reasonable to ensure that depositors’ funds are safe.

Notwithstanding that, I guess it sits within the broader context of our opening comments that the way government works by definition is that individual agencies or individual ministers see a problem and fix that. What we are seeing right across the spectrum and at both the state and federal level, particularly because banking is such a hot-button issue, is that where there are instances where consumers are getting hurt whole new slabs of regulation are being laid on top of the industry. Sometimes that has questionable benefit, but they are generally supported on the basis that we think it is important that consumers are protected. But, more commonly, they do not interact well at all and there is a lack of coordination in approach, which means there is a multitude of conflicting and overlapping regulatory requirements. That is particularly the case in the area of credit, where there are so many ways in which the provision of credit is regulated in this country that smaller institutions are disproportionately impacted by it.

Senator BRANDIS—Mr Lovney, are you saying that there are certain parts of the various regulatory schemes that you ought to be relieved of or are you just calling to our attention the exaggerated impact of multiple-tiered regulation upon small institutions?

Mr Lovney—It is the latter. We would not argue for excision from those regulatory structures; we think they work well. In theory, they work well and they are eminently sensible; in practice—

Senator BRANDIS—But you have got a diseconomy of scale.

Mr Lovney—That is right, and that particularly has a strong effect on the smaller players in an environment where there are piecemeal interventions by different levels of government. The most recent one that comes to mind is in the area of comparison rates in advertising. There is a view that consumers find it difficult to tell the difference and adequately discern between a variety of honeymoon rates and interest-free periods and loyalty points and those sorts of arrangements, so the government is overlaying on that a requirement that there be a comparison rate or an annualised average percentage rate—which is, I guess, an indicator rate. All institutions that provide fixed-term credit will be required to supplement their existing advertising with these new comparison rates. Further, wherever they have branches—

Senator BRANDIS—Why is that a problem? It is just a bit of bean counting to work out a figure, isn’t it? It would not take you long.

Mr Lovney—The other requirement is that you provide a sheet of paper for all of those products everywhere you do business. So in the case of credit unions that operate, say, for teachers and through staffrooms, every time there is an interest rate change you have to recalculate schedules for each of those products and redistribute those throughout the network.

We support it—we think that consumer decision making should be supported and we support measures to do that—but there has been very little examination of the benefits or the cost of this proposal. Indeed, it has existed for the past 10 years in New Zealand in an identical form and it has just been withdrawn because it was proven to be ineffective. Those requirements sit on top of another four or five different ways in which credit and credit disclosure are regulated. So we support them, but they are another compliance burden.

CHAIRMAN—I have one final question before I hand over to my colleagues. On page 9, you list 10 new credit union branches that were opened in 2002. Are they all supposed to be regionally based credit union branches or is that just 10—

Ms Petschler—I think that was our list of 10 that had opened in that six-month period.

CHAIRMAN—So that is anywhere—city and country?

Ms Petschler—Yes, but most of them are in country communities. There are a couple in larger centres and on the outskirts of major cities.

CHAIRMAN—Golden Grove, in South Australia, is very much a metropolitan area now.

Senator MURRAY—Recommendations have been made to us that the committee should consider the question of the imposition of community service obligations on banks specifically, and probably on financial institutions generally. There are difficulties as to what the content would be—that is, should it be from basic services all the way up to specialist financial services—and, of course, what the spread should be. When people think like that they are often thinking of the four main banks; but, as you know, there are many more banking licences than those held by the top four. There are other institutions such as building societies and credit unions. What is your feeling about CSOs, given that you have criticised the majors for the way in which they have withdrawn their services and how they have dealt with the people who have been left behind?

Ms Petschler—We are starting to see a shift in the way some of the major banks represent their understanding of social obligations or community service obligations. We would argue that we are bound already through our credit union values and practices, which reflect a lot of the points that you would have seen coming from the CSO debates that have been around for some time—for instance, the way that we focus on member benefit and our relationship with staff and with the communities that credit unions operate in. I think that, as always, the devil is in the detail. We have a very satisfied member base. We have continued very strong satisfaction rates. We do not seem to have the same disconnection with our membership base that the banks appear at times to have with their customers.

We support, for example, branch notice protocols, which the credit union sector has argued for over the years at different points in time. We can see some value in the industry as a whole looking for opportunities to reconnect with the community and looking at ways of formalising some of that support, and some of those obligations we would argue we are already meeting.

Senator MURRAY—Your portability point is well taken. It is a point that politicians and policy people are automatically sympathetic to because they hear it in relation to a range of other things—for instance, superannuation portability is a big issue, or it has been, and it is improving. One of the things you could do is to make portability a CSO obligation. You do not need ASIC to convene working parties and people to grudgingly move towards it. It would just be imposed: you must maximise portability of essential services, which include the ability to transfer accounts, debit facilities, mortgage circumstances and so on.

Mr Lovney—You could certainly include discussion of issues like portability in a broader CSO context. It was raised in the most recent state election, I guess, in proposals for a code raised by Senator Conroy. We support many of the things proposed in that code. Indeed, we have been doing many of them for a number of years. We have long considered that part of our responsibility is to educate our consumers on how not to get into trouble. As a mutual, that hurts us as an institution.

Those CSOs have often been advanced as a way of balancing the often competing interests of customers on the one hand and shareholders on the other. In joint stock companies those differences are more pronounced, and indeed they often pull in opposite directions: increased fees on the one hand mean an increased return on equity for shareholders. Credit unions and a number of mutual building societies do not have that fundamental conflict between the interests of their customers and the interests of their shareholders. So, while we support CSOs and we think there are some things that should be in them, we would encourage a proportionate approach that recognises that different parts of the industry come from different positions and, as Louise has said, that they have different relationships fundamentally with their customers, which are reflected in customer service satisfaction ratings. So we would support the idea in theory, but we would want to see how it would work in practice.

Senator MURRAY—I am one of those who is not so persuaded of the distinction you make. My belief about mutual organisations is that they internalise profit—as opposed to full profit organisations which externalise it. You are still profit motivated; you just dish it around differently. You are quite distinct from a charitable institution, for instance. I lead in that way because, amongst the themes developed, are these three. Firstly, there is the basic service argument, which says that financial services and services such as the provision of water, electricity and roads are basic services which must be provided to all communities. Secondly, there is the welfare motivator argument. I do not know whether that is the correct way to describe it, but I mean the idea that if deprived communities have sympathetic financial services, with a social intent, they can be made much more functional and much more capable. Thirdly, of course, is the business area; you can be proactive on the business side by providing initiatives and financial services, which will make a community get up and go in a business sense. Do you think that credit unions are at all equipped to deal with the deprived community model? I can see that they can meet the basic service provision model and the business model, but what about communities which are actually looking for really low cost and very generous loan schemes of the microcredit type? By that I do not mean that they are large; you know what I mean by it. They are just looking for a sympathetic banking process. Are you equipped at all in that area?

Mr Lovney—We have some experience in that area, and we have taken some of those initiatives. We have worked in Victoria around no-interest loan schemes, and we have had involvements in some of those programs. But your point is well made. One of the issues is about low cost. Credit unions have traditionally been perceived by many as offering low-cost banking, and in fact we do. But in a sense it becomes a self-defeating proposition, because it then means that, by definition, it is more difficult. The customers that we have attracted have tended towards being high-cost, high-transactor customers, whom the banks have been encouraging, often, to move towards credit unions. While we are happy to fulfil that role, it does mean that there are significant drains on our business and it means that it is hard for us—particularly when some of the larger institutions have been cherry-picking the more profitable customers and, at the same time, actively encouraging their less profitable customers to move towards us—to sustain a profitable business and meet the regulatory requirements that are placed upon us. While we have some experience in providing services to deprived communities, we think that obligation needs to be shared across the entire banking sector.

Senator MURRAY—There is another prospect, which occurred to me after the discussion with the representatives of the Commonwealth Bank today. They have lowered their costs by piggybacking on a government business enterprise, which has incurred the cost of establishing the basic infrastructure. I am referring to Australia Post. They are carrying all the essential start-up and maintenance costs, and as a result of that the Commonwealth Bank can get extended reach, at an affordable rate for them. One of the things we may or may not consider—I do not know how the committee will go with it—is the idea of government policy attending to the deprived community model. Government may provide the basic infrastructure so that commercially driven operations, including your own, can decide whether they can sit on top of that and provide services—services at which they are bound to be far more expert than a government instrumentality would be. I am using the post office model as an analogy.

Mr Lovney—GiroPost approaches that. Although the fees that are paid by issuing institutions to giroPost are coming down, they have traditionally been quite high.

Senator MURRAY—But they are not as high as establishing the outlet itself?

Mr Lovney—No, they are not—but they are incremental in a sense. If you are paying, say, a dollar to Australia Post to process a transaction, that is a significant margin that you have to get over before you can actually make any incremental profits yourself. With scale, of course, will come decreased prices.

Senator MURRAY—In economic terms what I am talking about is that you would be covering the marginal cost, even with a premium, but you are not covering the primary cost.

Mr Lovney—No. The other issue that I would put to you that I think needs further consideration is how that would work in a regulatory sense. FSR comes to mind if you have services being delivered by one institution on behalf of another institution. The same issues arise in relation to shared services.

Senator MURRAY—I draw your attention—it may have been made available to you by the secretariat; it is certainly publicly available—to the letter of 10 October 2002 from Gilbert & Tobin lawyers to David Bell, Chief Executive Officer of the Australian Bankers Association. Perhaps you could have a look at that letter from your perspective as credit unions and see whether you agree with the broad case made, which is that the Trade Practices Act and the FSRA in fact act as impediments to the appropriate sharing—they might regard it as inappropriate—of banking facilities. It is a point you have just made and it is made in a different way in that letter.

Mr Lovney—I think it just means that those things would need to be taken into account in any model. A shared services model whereby one service is provided by somebody on behalf of another, as you say, does not sit well with the FSR Act.

Senator MURRAY—But my question, which you might need to take on notice, is whether you would say to the committee that you share the concerns expressed by those lawyers to the Bankers Association—because, if you do, that reinforces the case for the committee to consider whether those provisions and the law should be adjusted for remote and rural circumstances. That is something you might think about.

Ms Petschler—We can take that on notice. I must say that our own advice and our own interpretation is consistent with that letter, but we will take it on notice and have a further look.

Senator MURRAY—Thank you.

Mr Lovney—We would reinforce the point that we made earlier: proposals that allow large institutions to share infrastructure, on the one hand, enable new facilities to be established at a lower cost but, on the other hand, conversely also allow existing branch structures to be rationalised. The experience in the UK of some of the shared services proposals is that it has been a Pyrrhic victory, in that it basically allows institutions to withdraw services that they already have and consolidate those into single banking models. I do not know whether that is the outcome that is being sought here.

Senator MURRAY—Perhaps the model is the one-pub model. There are towns and places which can only carry one pub, but that pub carries a range of beer and a range of wine from different producers. The difficulty that I understand from that is that you cannot have the one-bank model which carries a range of banking products; you can only carry one bank’s products. I assume the law can be examined in that respect—not with regard to making a general rule for the entire community, which would exhibit the very dangers you are outlining, but focusing on areas where there is actually no other way to do it.

CHAIRMAN—As there are no further questions, thanks to both of you for your appearance before the committee and your answers to questions today.

[3.15 p.m.]

BURGESS, Mr Earl, Senior Manager, Rehabilitation and Enforcement, Australian Prudential Regulation Authority

GLENFIELD, Mr Stephen, General Manager, South West Region, Australian Prudential Regulation Authority

KHOO, Mr Brandon, Executive General Manager, Specialised Institutions Division, Australian Prudential Regulation Authority

ROBERTS, Dr Darryl, General Manager, Rehabilitation and Enforcement, Australian Prudential Regulation Authority

CHAIRMAN—Welcome. The committee prefers that all evidence be given in public, but if at any time you wish to give your evidence or part of your evidence in private you may request that of the committee and we will consider the request to move in camera. We do not have a written submission from you, so I now invite you to make a statement to the committee and at the conclusion of that we will have some questions.

Mr Khoo—The primary issues of interest that we were provided notice of focused on our regulation of the smaller deposit-taking institutions, particularly the credit union industry. We have prepared our opening statement accordingly. The credit union industry has been under prudential regulation since the introduction of the financial institutions scheme in 1992. Prior to that date, the regulation of the industry was relatively unstructured and conducted on a state and territory basis. The collapse of Pyramid Building Society in Victoria heralded the introduction of a prudential regulatory regime for smaller deposit-taking institutions—credit unions and building societies. The introduction of this prudential regime was a challenging one for the industries, but it has had clear benefits. The prudential standard requirements of capital, minimum liquidity requirements and documented risk management systems have resulted in significant improvements in the governance and risk management systems of the industries and therefore in the safety of depositors’ funds.

That said, it is important to point out that competition and rationalisation in the sector have been significant. While industry assets have increased very significantly in that time—in the case of credit unions, from some $10 billion to some $27 billion today—the period has also seen significant consolidation of participants in the industry. Where there were some 350 credit unions in the industry in 1992, there are now less than 200. The very large majority of the credit unions that have gone by the wayside have been either taken over or merged with other credit unions. It is not a coincidence that many of those that have disappeared are those that failed to address risk management issues adequately or to develop appropriate and realistic strategic plans. I would like to emphasise that, in all that time, no losses to depositors have occurred as a result. This has resulted from a combination of timely and forward-looking regulatory intervention and a willingness of the credit union industry to absorb weak participants. Public confidence in credit unions and building societies was significantly increased under the financial institutions scheme but, since coming under APRA in 1999, the industry now enjoys the same status as all other authorised deposit-taking institutions, namely the banking industry.

Briefly, on APRA's approach to regulation: APRA maintains a very active onsite and offsite supervision program on all deposit-taking institutions. The onsite program consists of visits to the institutions and our reviews include assessments of risk management policies and practices, strategic planning and corporate governance. Our offsite program consists of assessing financial ratios and identifying trends in financial strength. The offsite program complements our onsite program and provides us with an overall picture of an institution. Overall, our supervision program is risk based and we have systems in place to focus supervisory resources on those institutions and areas most in need of them. We have maintained a proactive regulatory approach to the credit union industry. All new policy requirements undergo a consultation period to provide the industry with the opportunity to comment. The regulation of the credit union industry is a balancing act for APRA in terms of safety, competitive neutrality and a recognition of the need of these entities to write business. I point out that APRA's primary objective is safety for the depositors of these entities. Where there is doubt or conflict, safety will take priority over any other objective.

The current competitive environment among authorised deposit-taking institutions, ADIs, has been intensified in recent years by non-ADI participants in the lending market, especially for housing. In this environment it is essential that credit unions avoid the temptation to venture into unfamiliar lines of business and that they continue to focus heavily on the adequacy of their risk management systems for their core lines of business and have clearly defined strategies. Where APRA see potential problems emerging, we will move to stem out such issues before they become serious.

It was on this basis that APRA wrote to all credit unions and building societies in late September last year regarding our concerns about emerging lending practices. Issues that were identified from our on-site reviews across the country included loan to valuation ratios in excess of 80 per cent, and sometimes up to 100 per cent, without mortgage insurance; credit being extended to borrowers who only marginally qualified for the loan, and without careful due diligence; the first home owners grant being counted as 100 per cent of borrowers' required deposit, which in effect removes the need for borrowers to contribute any personal funds; and increased reliance on third-party brokers to originate business.

We also identified significant deficiencies in commercial lending practices. I emphasise that these practices were emerging and not widespread; however, there was enough evidence that justified, in our opinion, writing to all credit unions and building societies. There has been some commentary that APRA has singled out credit unions and building societies in this matter. That was not the case. APRA also wrote to banks about specific concerns we had with some of their activities. It has always been APRA's preferred position to work with ADIs to achieve the best outcome for depositors. Where we are unable to achieve this, however, sanctions available to APRA include the ability to increase capital and to issue directions. We do not take the imposition of sanctions lightly; however, APRA will do what it believes is necessary to safeguard depositors.

There are many challenges facing the credit union industry, and these include competition, maintaining the relevance of mutuality and the increasing complexity of doing business. In addition to this, capital remains one of the challenges for the industry. Unlike non-mutual organisations that can raise external capital—for example, by way of share issue—credit unions are unable to raise share capital on this basis. It is their very mutual structure that creates this problem. The industry has for some time been looking to develop a viable tier one capital instrument that will not trigger a demutualisation, but has yet to achieve this. APRA is more than happy to consider industry proposals, but in the interests of depositors these must meet the fundamental criteria for recognition as tier one capital.

Prior to 2001 banks, but not credit unions and building societies, were required to submit annual information on branches and agencies to the Reserve Bank, which subsequently published it. In 2001 APRA took over this role using a modernised form entitled ‘points of presence’, and now collects annual data as at June on the number and type of presence of all ADIs. The information collected, which is of little prudential significance to APRA, is provided to the ABS and published on the APRA web site. The 2002 data was published last week.

While the number of institutions has dropped significantly, access to banking services via agency and electronic outlets has been increasing. As the points of presence data is not relevant to APRA’s core responsibility for prudential safety, we do not attempt to analyse or interpret this information, nor do we have any particular insight into the accessibility of banking services across regional and rural Australia. That said, the past few years have seen a number of credit unions open branches in regions where major ADIs have chosen to vacate. Credit unions provide an essential service in these regions, and APRA is fully supportive of this but subject to the following caveat: such ventures must be taken as part of a well thought out strategy and adequate analysis must be undertaken in assessing the viability of the region. A poorly performing branch and the writing of unfamiliar regional business could have an adverse affect on a credit union.

The Wallis report recommended that APRA be funded on a cost recovery basis by the regulated industries. APRA is accordingly funded under legislation by annual levies on six regulated industry sectors, including the ADI sector. In late 1999 the government conducted a review of the levy framework, but, apart from minor modifications, it confirmed the arrangements introduced at APRA’s formation in 1998. The legislation provides for levies to be calculated on a set percentage of assets per sector, subject to a dollar minimum and maximum per institution. The rate for credit unions and other ADIs is currently 0.01 per cent, down from 0.013 per cent in 1999-2000, with a minimum of $500 per institution and a maximum of $1.125 million, which is up from $1 million in 1999-2000.

In 2002-03 credit unions and building societies are expected to account for 81 per cent of ADIs by number, five per cent of ADI assets and 16 per cent of ADI levies. As you would expect, credit unions take the view that they pay too much and the large banks, in particular, pay too little. I point out that the levies applied to the industry are considerably lower than those charged by our predecessor regulator, the Financial Institutions Scheme. Total industry levies charged to the credit union industry are in the vicinity of some $2.7 million per year today. In the final year of the Financial Institutions Scheme, total levies charged to the credit union industry by the Financial Institutions Scheme regulators amounted to some $6½ million. The overall levy structure is currently under review by the government. That concludes our opening statement.

Senator MURRAY—Before we move on I have a point to be clarified: are those levies and so on indexed?

Dr Roberts—No, they are not. The rates are determined each year by the minister.

CHAIRMAN—Thank you for your opening statement. On the matter of levies, the Australian Association of Permanent Building Societies has raised the matter of levies paid by prudentially regulated institutions and maintains that the structure is inevitable and limits the options for the smaller institutions to expand their services in Australia. Is there a formula that applies to determine the levies across the board or are small institutions paying a higher levy in percentage terms of their total assets compared with larger institutions?

Dr Roberts—It is a rate set per asset size of institution. In this case, Brandon said that for ADIs it is 0.01 per cent of the institution’s assets, with a minimum and a maximum. The minimum is $500, which is, I might venture, a very small amount. In fact, it is way too small for us to regulate any financial entity, however small, because our prudential supervision at the very minimum includes collecting quarterly returns and analysing them, paying an on-site inspection visit according to a cycle—in the case of ADIs that is visiting them at least annually—and generally keeping on top of developments in that entity, and that is for an entity that is not causing any trouble, if you like. We believe $500 is below the cost of even the most minimal supervision and would hardly be a barrier to entry for a building society.

CHAIRMAN—It is 0.01 per cent across the board?

Dr Roberts—From the largest bank down to the smallest credit union.

CHAIRMAN—Are you aware of those complaints?

Dr Roberts—There have always been complaints. The credit unions’ main concern is that the major banks have a maximum. The maximum is now set at $1.125 million, which means that on a pro rata basis they are paying proportionately less. Our experience has been that a very small institution still requires a minimum amount of supervision and a very large institution requires less than $1.125 million worth of supervision. To us, the setting of the minimum and maximum seems quite fair to the smaller part of the industry.

CHAIRMAN—The Australian Centre for Co-operative Research and Development have raised with us their view that a number of legal and regulatory obstacles militate against the creation of new banking and financial institutions, particularly small new credit unions at the local level. They are arguing that there should be an easing of the current capital adequacy and prudential requirements that are imposed on financial institutions. Have concerns been expressed to you about the capital adequacy requirements being an impediment to the establishment of small local financial institutions? Is there a way of minimising what is perceived to be, at least in the views of ACCORD, an impediment to the establishment of those organisations, without reducing consumer protection?

Mr Khoo—I am not aware of complaints in that context, but we have had some experience in terms of small credit unions forming. Our experience has been that the formative stages of a deposit-taking institution happen to be the period when the institution is at the greatest risk, because it does not have established systems, it does not have established expertise and very often it does not have an established client base. On that basis, the capital is very important in providing protection to the depositors as they come on board. We have had examples in the past of new institutions forming unsuccessfully. They become very problematic issues for APRA. So, as you can appreciate, in order for us to be satisfied that we should license a new entity, we would want to be very satisfied that the model was viable and that they had an appropriate and adequate level of capital to support the depositors through the formative stages until the entity actually became viable.

Dr Roberts—In the ADI industry we do not actually have a minimum entry level of capital as we do in our other sectors. For example, in general insurance now you cannot start up a new general insurance company without at least $5 million of capital because that is what we think is the minimum required for a base level of risk management and back office systems. In life insurance that figure is $10 million. We do not let any ADI call themselves a bank unless they have $50 million in capital. In retail superannuation the figure is $5 million. In fact the ADI sector is the only sector where we only have the risk based measure and we do not have that initial entry hurdle. So you can still have a very small credit union start up. The risk based measure, which is eight per cent of risk based assets, is an international measure so we are simply part of the international mainstream there and it would be pretty hard to argue that you would want to relax that, I think.

Senator MURRAY—The only legislative example I can remember, but maybe there are others, is the case of managed investments. I think in that case there is a legislated minimum in terms of value.

Dr Roberts—There might well be. ASIC can probably clarify that tomorrow.

Mr Khoo—I would like to add to the last comment. In order for us to allow a new credit union, for example, to form, it requires a significant concession on our part. Because of their mutual structure, the only way which formative capital can be introduced is through tier 2 capital, generally by way of subordinated debt. Our prudential rules actually place a limit on tier 2 capital in relation to what the level of tier 1 capital is. It actually requires a concession on our part, in terms of our prudential rules, just to get the institution started up.

CHAIRMAN—A previous inquiry into these sorts of issues was conducted by a House of Representatives committee under David Hawker. In the government's response to that report the then minister, Joe Hockey, undertook to seek APRA's assistance in monitoring the practices of financial service providers in the event of closing branches and to report back to the committee as was requested. Have you reported back to the committee and, if so, what was the thrust of your findings?

Dr Roberts—I do not recollect with any accuracy what the government's response to that was, but the position we suggested to the government and Treasury at the time was that as a prudential regulator we did not think it was within our mandate to look at the social consequences or the protocols that branches follow when they close down. While in terms of data collection we accepted the logic of conducting the points of presence return which we had inherited from the Reserve Bank as something that was of public interest, as Brandon said in his opening statement, we do not actually want to put the effort into analysing that return because it is not germane to our mandate which is set out in the APRA Act. The act is primarily concerned about safety of institutions, having some regard to competition. I had had the impression that the government had not fully followed up on Minister Hockey's suggestion because it was outside our core mandate.

Senator BRANDIS—Is there a Commonwealth agency or instrumentality that you consider would be the appropriate agency to be concerned with that matter, or is that really just a question for the parliament and for committees such as this?

Dr Roberts—I suspect it is a question for the parliament and committees such as this. It is all part of social and, as Senator Murray mentioned, community service obligations—the social obligations of banks and other deposit takers to the communities they live in. We are of the philosophical point of view that the entities we regulate should be good corporate citizens, so we would not be totally oblivious if we thought our regulated entities were acting in a manner that was contrary to the interests of the community or their customers. But in terms of specific social outcomes such as what protocols should be followed by a bank when it closes a branch in a region in terms of notifying the customers or providing run-off services and so on, it is really something on which we have no mandate to act and no experience or expertise in that kind of matter.

Senator BRANDIS—I agree with you.

Senator MURRAY—Could you pass it to ASIC under their consumer obligation?

Dr Roberts—I think my colleague at ASIC might want to take that back to the office and see if his colleagues—

Senator MURRAY—He is lying on the floor with his legs in the air screeching with laughter; is that what you are telling me?

Dr Roberts—He might ask the ASIC contingent to be prepared for that tomorrow.

Senator BRANDIS—I suppose the ACCC could be a little interested under their consumer protection hat.

Dr Roberts—Yes, indeed.

CHAIRMAN—You refer to the points of presence data. Could you outline the history behind that database? I know the Hawker report recommended that APRA publish information that represents the level of access Australians have to basic financial services face to face and electronically.

Mr Burgess—My understanding is that up until 2001, as Mr Khoo mentioned, banks were required to report to the Reserve Bank on branches and agencies. In 2001, APRA assumed that responsibility and reworked the form in which that information was to be given. I will quickly take you through what is collected. Information is collected on the following definitions: branch level of service, which is a full range of face-to-face services; other face-to-face services, which is not a full range—it may be an agency where withdrawals and deposits can be made but with no provision for loans or a loan centre where no deposits or withdrawals can be made; the other area on which they pick up information is non face to face, which includes telephone banking, Internet banking and BPay; and then there is electronic, which is classified as ATMs and EFTPOS. Reporting on ATMs is mandatory. Reporting on EFTPOS is not. That data is then provided by postcode and by the ARIA remoteness index, which was picked up from the health department. It is dissected into five categories: highly accessible areas, accessible areas, moderately accessible areas, remote areas and very remote areas.

I can quickly give you an example. A highly accessible area, apart from a metropolitan capital city, may be Albury, Toowoomba or Nowra, while a place like Geraldton is classified as accessible and Mackay, Queensland, as moderately accessible. That information was published for 2002 and, as Mr Khoo said, was published last week on APRA's web site. There is a lot of information. We have put up a number of Excel spreadsheets. In fact, the raw data is there. If someone wanted to go to that web site, it is all there. There are pivot tables. You just click on the pivot table and it will give you the answers.

CHAIRMAN—Can you tell me what the line blank represents?

Mr Burgess—Institutions gave us numbers but did not know where to classify them. We had some problems in 2001, especially in the area of electronic where we had issues with ATMs. One ATM may have taken a number of institutions' cards so a number of institutions claimed that ATM as their own. In 2002, we redefined that and we said, 'No, whoever owns that ATM or has the switching capability on that ATM should report it and no other institutions should report it.' We do not believe that the 2002 comparison figures for 2001 are worth anything.

CHAIRMAN—You obviously do not include EFTPOS points as points of presence in a way that the Commonwealth Bank does.

Mr Burgess—On electronic, it is mandatory to report ATMs on the form but it is not mandatory to report EFTPOS. So some institutions, according to our statistics people, have reported them and others have not.

CHAIRMAN—Are they distinguished in your statistics or not?

Mr Burgess—No.

CHAIRMAN—So they could be in these non face to face—ATMs would be non face to face?

Mr Burgess—No. Non face to face is telephone banking, Internet banking or BPay. Electronic is ATMs, which have to be mandatorily reported. EFTPOS is optionally reported.

CHAIRMAN—Where is that? I am looking at the columns that we have in attachment 2: branch level of service, other face to face, total face to face excluding giroPost and non face to face. Where does ATM fit into that or doesn't it?

Mr Burgess—I am looking at some graphs that came off our web site.

CHAIRMAN—That is attachment 2.

Senator MURRAY—Attachment 4 spells out EFTPOS separately and what you have told us is that that is underreported. That is what you were telling us.

Mr Burgess—Yes. It could be.

Senator MURRAY—Do you know by how much it is underreported?

Mr Burgess—No, I do not. I am told the figures for 2002 are correct. The hiccup is in 2001 when you try and do a comparison for 2001. The figures for—

CHAIRMAN—That is access to the payment system, isn't it? That differs from points of presence, I assume.

Mr Burgess—No. Points of presence for 2001 in non face to face, which is ATMs and EFTPOS, were reported as a total of 1,763 for 2001. If you look at 2002, it is 900-odd. We believe that issue of double counting for 2001 is the problem.

CHAIRMAN—Looking at the documents we have, attachment 2 is points of presence. Attachment 4 is points of access for the Australian payment system. There is obviously a difference between those two definitions, isn't there?

Mr Burgess—It is a different source.

CHAIRMAN—Any further questions?

Senator MURRAY—I do not know how well you are going to be able to answer this question, because it is really a matter of policy—the chairman already picked it up with interjections from Senator Brandis and me—and that is the difficulty of deciding where APRA's role should end. It is clear where it ends presently in terms of your act, but there is a whole lot of stuff that falls off the edge which, as Senator Brandis said, could fall within ACCC and, as I said, could fall within ASIC, and that may need to be much more clearly spelt out by the government. Does it occasion you concern or do you just ignore it because it is not part of your remit?

Dr Roberts—Prior to the Wallis inquiry, we had very bad fragmentation on the consumer protection side of the financial sector. At that time the Insurance and Superannuation Commission had responsibility for product disclosure and agent regulation in the insurance sector, as well as codes of practice, and the ACCC dealt with the many complaints under section 52 of the Trade Practices Act, 'Misleading or deceptive conduct', which applies to the financial sector. So prudential regulation was fragmented—the Reserve Bank had banks, the insurance commission had superannuation funds, and insurance companies and the states had, under the national coordinated arrangement, credit unions, building societies and friendly societies—and there was a view that the Wallis arrangement would get rid of a lot of overlap and confusion on paper by saying, 'APRA will do all the safety and soundness, ASIC will do all the consumer protection for the financial sector, and the Reserve Bank will do the payment system and monetary policy.' The expectation was that we would have a lot clearer demarcation. I think most of the time that is the case, but there have inevitably been some overlaps and instances that have caused confusion. Whether that is a matter for more education, or how that can be clarified, I am not sure, but I am pretty sure that if you made any more regulatory rearrangements to try to sharpen the boundaries even more you would just create some overlap somewhere else.

Senator MURRAY—I would be happy to take advice, but as I see it at present you probably do not need more legislation; you just need a ministerial direction. Broadly speaking, APRA is prudential, ACCC is economic and ASIC is consumer protection and service delivery—because they are very much involved in that in a number of areas—so their responsibilities could simply be extended into these areas of concern. That is a matter of priorities. I am not too sure there is any coverage that is not somewhere in those three acts. Would you agree with that?

Dr Roberts—Yes. Within APRA I think we are happy with the arrangements, and we think we understand what we have and what we do not have. But certainly, within the industry, and sometimes with your colleagues on other parliamentary committees, issues have arisen. In recent years, we had the CNA Enhanced Cash Management Trust, where there was initially a lot of frustration because the entity that got into trouble turned out not to be regulated by APRA or ASIC. People were quite frustrated that there was not a regulator clearly responsible for that particular problem—although it has all been sorted out now. So there are instances. CUSCAL today mentioned that they see some areas that, inevitably, end up overlapping on the same sorts of issues. We do not think there is a particular problem, but there seems to be a bit of confusion sometimes outside of the regulators themselves.

Senator MURRAY—The other area I want to ask about is the barrier both to entry and to extending operations—that is, the amount of capital you have to tie up with capital adequacy. As a deposit protection device, you do not see it in isolation. In other words, the lending practices and protocols of an institution, if conservative, would in theory allow a lower capital adequacy. For somebody who adopts a high-risk and perhaps a marginal approach to new business, you might want to pump up the capital adequacy requirement, because they are taking more risk on the operational side and therefore you need to shore it up. Another area is professional indemnity, which is getting more and more expensive. Certain activities are properly insured against—for instance, lending into high-risk areas of primary production, which can be affected by the weather, international events or anything of that kind. Do you look at these things together in examining a capital adequacy level, or do you deal with each one separately? Is it a blended approach?

Mr Khoo—If you are asking how we establish what we feel is an appropriate capital adequacy level for an institution, I would probably suggest that all factors come into it.

Senator MURRAY—That is the question. I want to know whether they do. You do not just look at something and say, ‘Well, it has got a $100 million book, so I want so many million in capital adequacy’?

Mr Glenfield—The starting premise of the standard is that you should have eight per cent capital, but the standard provides that you can assess a higher ratio depending on the risk exposure of the institution. What comes into that, and is assessed by us, is a series of factors, one of which will be the lending book. If an institution is making very large commercial loans but has a small capital base, we are obviously going to say to them, ‘You require higher capital to do that because you are in a risk area of lending.’ The credit unions often talk about access to capital et cetera. It is a fair point, but a small credit union has around $500,000, $1 million, $5 million worth of capital. If you look back 20 years, the credit unions were traditionally into personal loans with very small balances. If they made an error on a personal loan, it was not such a big problem on a $500,000 capital base. But if you look at the structure of their books over the last 10 years, as competition has come in and they have needed to chase money to make profit to keep operating, they have gone more into housing loans.

Senator MURRAY—Their exposure has increased.

Mr Glenfield—An individual housing loan is probably $150,000. If a credit union gets three of those wrong and its security is not tied up properly, it has actually wiped out the whole capital base and suddenly exposed all the members, who are depositors, to losses from that process. So, if a credit union is moving from the traditional world of small personal loans into more housing loans, we would expect that the board would set itself a higher than the minimum capital ratio to reflect the greater risk. If credit unions then choose—and we have seen this over the last two years—to start growing into an area that they really do not understand or have not been in before, such as commercial loans, where it is even harder to securitise and assess the loan, the losses can be greater again. Again, we would expect them to make an assessment of how much capital they need. If they do not make that assessment, we would then make it for them.

Senator MURRAY—Let me test whether you are giving it to us straight. If you view the credit unions collectively, what is the average capital adequacy?

Mr Glenfield—The required ratio or the actual ratio?

Senator MURRAY—You are telling me that everyone must have eight per cent—

Mr Glenfield—Correct.

Senator MURRAY—but that you will raise it in riskier circumstances.

Mr Glenfield—Correct.

Senator MURRAY—That must mean that collectively there is a higher rate than—

Mr Glenfield—I can talk for the south-west region. The south-west region means everything south and west of Sydney, if you like—WA, South Australia, Victoria and Tasmania. We have about 50 credit unions. Of those, we have 17 at ratios set above the minimum. That is based on our assessment of their risk portfolio. This will probably get to where you are going: in terms of total capital, the credit union industry sits quite high anyway. It has in the past because when they came into the FI scheme a lot of them had high retained earnings, having come from a world of personal lending. What we have seen over time is that that has come down as they have gone out into other fields, be it into housing loans or commercial loans. I cannot remember the figure off the top of my head, but I think that the last time I looked the industry average was about 15.

Dr Roberts—In comparison, I think our banks are averaging about 10 per cent.

Senator MURRAY—So they can go to eight and they are actually running at 15—

Mr Glenfield—Around about 15.

Senator MURRAY—What would the maximum be?

Mr Glenfield—I have credit unions sitting up at 39 or 40.

Senator MURRAY—Someone who was conservatively operating would be allowed to go back to eight, wouldn't they?

Mr Glenfield—There would be few allowed to operate at that level, because of the size of the capital base and the risk of a particular bad loan tipping you under. What we say to them is, 'The minimum is eight per cent. We would expect the board to set a reasonable prudential buffer over that to allow for the sorts of write-offs that we might not be aware of today.'

Senator MURRAY—The reason I am pursuing this is that, if we were to be interested in the recommendation put to us by ACCORD, then the implication from them was that they actually should be lower than eight per cent. The implication that I draw from what you say is that people should be allowed to go back to eight per cent—not that the capital adequacy should be above eight per cent—where the prudential circumstances allow it.

Dr Roberts—In regard to the eight per cent or something above it, we should say that the most prudent deposit taker in the country still has risks it cannot personally control, such as, for example, the risk of a recession. Even if the credit union board were incredibly conservative and prudent, it would still be exposed to the range of uncertainty and the vagaries of the economic climate, so some small margin or some margin above eight per cent is, in our view, the absolute rock bottom for even the best-run credit union.

Senator MURRAY—Do you publish capital adequacies? By that I mean the range—obviously the lowest is eight, although perhaps it is not—all the way up to wherever it is, and the mean?

Dr Roberts—Yes, we publish percentiles in our *Insight* publication which show the distribution.

Senator MURRAY—Could we have that on notice so that we have the facts and figures to put against that case that has been made to us?

Dr Roberts—Yes.

Mr Khoo—I would like to emphasise that the eight per cent level is sacrosanct from our viewpoint; it cannot be breached. That is why both Dr Roberts and Mr Glenfield have been talking about buffers above the eight per cent. It is our position that institutions need to maintain a buffer above that eight per cent to ensure that that level will not be breached.

Senator MURRAY—That is fair enough. I just wanted to understand what they meant by the capital adequacy levels needing to come down. I wanted to understand what that would physically mean to an institution. In my head I thought that they were wanting to go below eight, but what you are telling us is that the effective rate is much higher.

CHAIRMAN—As there are no further questions I thank you all for appearing before the committee and for your evidence in answer to our questions today.

[4.01 p.m.]

BROWN, Mrs Margaret M., Chairman, State Study and Investigation Committee, Country Women's Association of New South Wales

CHAIRMAN—Welcome. The committee prefers that all evidence be given in public, but if at any time you wish to give part of your evidence in private you may request that of the committee and we will consider the request to move in camera. We have before us your written submission, which we have numbered 86. Are there any alterations or additions that you need to make to the submission?

Mrs Brown—I would think not at this stage, having given it a brief glance-over.

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

Mrs Brown—Around the same time that we were asked to make a submission on banking services, we were also involved in researching and writing submissions on aviation and telecommunications services. All three inquiries were into the adequacy of the levels of those services in rural, regional and remote areas of Australia. So our first response to this avalanche of inquiries into what is commonly referred to as 'the bush' was to send a raspberry to Canberra. Banks had withdrawn from their traditional roles, Ansett was dead and Hazelton, Kendall and other regional airlines were either close to dying or being rebirthed in limited form. In spite of all the hype and hysteria accompanying the proposed sale of the rest of Telstra at that time, most country subscribers could not get real access on their mobile phones and could not use their Internet services, if they had them, with the security of firstly knowing they would work and secondly how long they would be at their keyboards waiting for the downloading of information.

The General Secretary of our Country Women's Association of New South Wales found our response inadequate, so we set to work. At the end of our research and after putting in our submission we felt just as cynical and disillusioned. Worse, we felt resentful at counting for so little. As to the adequacy of the level of banking services in regional, rural and remote Australia, you have a copy of our submission and I do not propose to go over that in much detail.

Why is there no government pressure on banks, particularly on the big four, to draw up and implement a social charter? When the finance unions campaigned for a social charter from the banks, the response was the promise of no more closures of branches, but, effectively, they have gone on. The way around the closure of banking services has been for traditional branches to be closed and limited banking services to be moved into other shopfronts, especially post offices in those villages that still retain them. In researching our submission, most people we talked to objected to these shopfront services, although they felt they had to be used because there was not anything else available. Then the banks tell us that people are happy to use them because their figures indicate that they are being used. It is a catch-22.

The objections included a feeling of insecurity that one's financial affairs were now in the domain of employees at a chemist or a post office; that there is usually a tiny area of counter space for banking business and it is along the same counter as customers buying stamps or Panadol; that no business banking can be conducted effectively in these shopfronts; that third party cheques, often the lifeblood of one's pub, store and town, cannot be deposited; that loans cannot be negotiated or ticklish personal financial situations discussed. They are the fairly obvious outcomes of the move into shopfronts and people's objections to those.

Townspeople of smaller towns and villages—and in suburbs of Sydney; it is not just in the rah-rah—are also faced with empty shopfronts and buildings in their towns, generally in their main shopping area. In a conversation with our local newsagent I mentioned that I would be here today talking to you. His advice was, 'Don't talk to them—take along photos of all the places that have been shut down here and in all of the little villages around here.' He is right. Some but not all of the beautiful old buildings that were erected by the banks have become homes or offices. More recent buildings, which have no historical value and are really pretty ugly, just sit there in the shopping centre, with their sheets of plate glass sometimes taped up where they have been easy targets for vandals. Even if they are intact they are empty, forsaken and pretty ugly buildings in the middle of a main street where people want to now attract tourists.

Apart from the empty premises adding a sense of desolation to our main streets, with the withdrawal of their branch services, banks have largely withdrawn from the life of our communities. This aspect was mentioned in our submission from the point of view of sponsorship of local schools and shows et cetera. But the withdrawal of personnel has been a deleterious factor in our community life. 'Bankies', as they were affectionately known, together with 'schoolies', played various sports—netball, football, cricket et cetera—often held committee positions, usually that of treasurer, and lived in, were part of and added to the richness of the social life in otherwise fairly insular rural communities. They sent their kids, if they had them, to the local school and they shopped for basics in the local store. They added stimulus, newness and freshness to the life of the community. When one moved on, there was always much interest in who the replacement would be—whether they would be male or female, single or married and what sports he or she would be involved in.

Other areas of dissatisfaction with banks that we found include the increasing charges with a lack of increased services. It is interesting to sit at our local branch CWA meeting when the financial report is read out and to hear the income of 50 cents or so of bank interest, knowing that, when the outgoings are mentioned, the amount of bank charges would be just a couple of cents higher—they always are. It always brings a laugh and then some bitterness and angst. The recent move to make EFTPOS users pay, whether they are retailers or customers or both, is seen as another cynical grab by banks.

Another objection is the ease with which people can get into debt with credit cards and/or through bank loans. Of course, it is our own individual responsibility to manage our financial affairs well. On the other hand, when we were doing the submission into liability, we discovered that the courts do not think it is people's individual responsibility to look after their own lives; the courts will look after their lives for them. When your credit card statement arrives, it never ever does on its lonesome. It always has a grand offer accompanying it. Banks do not wait for customers to ask the bank to extend them further credit. They write to us and offer that further extension of credit, and we have to let them know that we do not want it. When we do make it to a real bank counter, we do not just perform a transaction; we are surrounded by advertisements encouraging us to take out loans for all sorts of things. And, if we seem to be fairly well off materially and not needing a loan, we can take out a loan to cover our funerals.

How are people expected to pay back those loans? Now you can finance your loans against your house mortgage—and that is another thing we object to. You can get a loan for extensions on your house, for your retirement, even for your death and burial, and the funeral and all those things that go with it, for a holiday or for a new car, and you can finance it against your mortgage. That is fine if you can keep up the repayments and the interest rates remain at the same level at which you took out the loan, but if interest rates rise or you lose your job—and let us face it, we have 6.1 per cent unemployment in Australia and among our young we have 21 per cent unemployment—you lose not just the money you borrowed but you are in danger of losing the collateral—your house. To us, that is unconscionable and not socially responsible.

The era of social responsibility seems to be over right across the spectrum. I do not know how many of you come from country towns, but some of you certainly do. Can you remember when the pillars of society in a country town were the priest or minister, the principal of the school, the doctor and the bank manager? None of those is a pillar of society in ordinary social thinking these days. The priests or ministers have all been tainted with the paedophilia brush, the bank managers and doctors who once lived in country towns largely do not any more, and the school principals are probably being sued for an accident that happened in their playgrounds 20 years ago. That life, that social responsibility in a small community, has disappeared.

Yet the banks justify their withdrawal and the subsequent outcomes by pointing out that their responsibilities are not to communities these days but to their shareholders. Some people in RRARA are shareholders in banks, and they are not happy about this. The real comfort comes to us when we learn about the funds management over the last couple of years, when we learn about the write-offs of extending business in the USA and when we read about the golden handshakes for CEOs and directors! All those ultimately come from the shareholder. How can the public, whether they live in cities or in the rah rah, be anything but cynical.

On the other hand, I would like to conclude on a positive note for the banks. I am not being cynical; I am being perfectly sincere. With all the heartbreak and the horror of the drought over the past two years, the number of foreclosures seems to have been absolutely minimal. The offer of low interest loans has not been particularly helpful, because farmers have not had any hope of paying back what they already owe let alone paying back an added burden. From what we can gather, on the whole, banks have been compassionate and caring—and have shown commonsense when you think about the future after the drought—in their treatment of farmers during the drought. That is the line on which I would like to conclude, because it is a positive one.

CHAIRMAN—Thank you very much, Mrs Brown. You note that post offices in the 1990s and beyond have increasingly picked up the role of banks in rural communities. You also said that, because of privacy issues, people do not like doing their banking in shared banking facilities. Some of the submissions that we have received in this inquiry suggest that post offices could be used to an even greater extent in delivering banking and financial services.

Mrs Brown—I agree with that to some extent, because they are open longer hours than banks. That is about the extent of it.

CHAIRMAN—Does banking in post offices exhibit the problems you highlighted about privacy?

Mrs Brown—Yes. If you come to our town and to our post office you will find that it is a traditional post office with a counter. These days, because post officers are more post shops than post offices, they have their postal bags, their tape and Lord knows what in one section, their knick-knacks in another and their cards, tape and all those things in another. Along the counter, behind which the post office staff stand, there is a little terminal down one end for the banking business. But until you come in to do banking business, the staff are spread out right along the counter, because they have all their gear under it and around it. When I go into deposit a cheque, as I did the other day—

CHAIRMAN—Where is this?

Mrs Brown—This is Molong. It is in the central west of New South Wales, near Orange. Around me, other people were doing their ordinary banking business. One of the people who works casually in that post office is a kid I tutor after school. I have no real desire for him to know my financial affairs.

Senator BRANDIS—Why is that any different from a bank teller, though?

Mrs Brown—Because they do not take on kids to deal at the counter. I have never dealt with anybody—

Senator BRANDIS—So is your complaint the fact that this is a juvenile?

Mrs Brown—Partly, and untrained. But it is also that when I went to a bank, my business was exclusively banking, and a bank was set up in such a way that those who were not facing the tellers were in one section and those who were facing the tellers were in another section, so there was physical privacy. If I came to you in the bank, you would be separate from the others, and I would be dealing with you only, wouldn’t I? Can you remember when you last went to a bank?

Senator BRANDIS—Yes, last week.

Mrs Brown—Right. They are separate. They have discrete areas. Behind you there may have been a queue, but there was a physical space between you and the start of that queue.

Senator BRANDIS—So, Mrs Brown, this is an observation that could be made generally about the practice of delivering banking services through multiagency outlets.

Mrs Brown—Yes, it is not just the post offices.

Senator BRANDIS—There is not a sufficiency of differentiation of function to protect the privacy of your business.

Mrs Brown—Yes, and that is what people are complaining about quite strongly.

Senator BRANDIS—Has your organisation said that to the Australian Bankers Association? That strikes me as being a real problem for people; nevertheless, it is not beyond the wit of people to solve. It is just a layout issue.

Mrs Brown—I have no idea. I am only one facet of the CWA.

Senator BRANDIS—For people who look at the big picture that might sound a small thing, but from a customer's point of view I can well appreciate that it would be a big issue.

Mrs Brown—It is huge, and I am not particularly old compared with a lot of people who live in little country villages these days; the older you are the more it seems to impinge on you.

CHAIRMAN—Are you saying that it is an issue not only of privacy when you are doing the transaction but also of the person with whom you are doing the transaction?

Mrs Brown—Yes.

CHAIRMAN—So you are saying that in a bank you are dealing with a limited range of people, whereas in a multifacility it could be any one of a number of people?

Mrs Brown—Yes. It could be anyone who is working there, casual or otherwise, if they know how to put your flexicard through the machine and type up the buttons that say you have deposited or withdrawn money. Also, if you have a business, you cannot do business in one of those shopfronts; you have to go the regional centre.

Senator BRANDIS—That is a different issue.

Mrs Brown—Yes, that is a second one.

Senator BRANDIS—That is a question of the type of facility available to be offered as opposed to a privacy issue. What you are talking about is basically a privacy issue, isn't it?

Mrs Brown—That is one of the objections to the use of the shopfront and the sharing of banking facilities.

Senator BRANDIS—I understand.

CHAIRMAN—You say that electronic commerce, the Internet, telephone banking and the like do not offer solutions for a lot of people, particularly older people.

Mrs Brown—Neither for those who are remote nor for a lot of rural people. Firstly, we still have trouble with our Internet services. When we did our submission on the level of telecommunications, I believe the aim was to have everybody downloading at the rate of something like 64 bytes a second. I am told I have a good Internet service, and it is 46 bytes a second. Out at Cumnock, where I used to live, you do not have anything like that; you would be lucky if you had around 30—and that is when your service works. As businesses have become rationalised, places like Cumnock, which is only 62 kays from Orange, lost their local service provider for the Internet. So they had to make an STD call every time they hooked up. That is a problem.

CHAIRMAN—Is that still the case?

Mrs Brown—No. It has come back to Molong, which is a local call. But that meant that people had to change their service provider. They had change from Chariot netconnect to BigPond or whoever, and then they had to go back from them to Chariot netconnect. That means you have to change your provider each time. That is not a problem for people who are very comfortable thumping at a keyboard, but a lot of people still are not. We are an ageing population.

Senator BRANDIS—Particularly in rural Australia. Is it not the case that the average age of primary producers in this country is 58 years?

Mrs Brown—I think it is. They are a hardy breed, and that means there are lot of elderly primary producers.

Senator BRANDIS—But I think that is something that does tend to be overlooked, and not just by banks but by other deliverers of services to rural Australia. They are dealing with a population that is perhaps culturally conservative, but it is also an older population whose habits—for instance, their banking habits—were formed more than 30 years ago.

Mrs Brown—And whose banking habits are based on insecurity. They want comfort when they do their banking; they want to know the person with whom they are doing the banking.

Senator BRANDIS—Mr Chairman, I would like to pursue this. That raises another point that you mentioned and I raised with one of the banks this morning: the idea of the country town bank manager as being a pillar of the local community. I am not a country boy, so all of my perceptions of that are third-hand. But that is the case though, isn't it? It has been an important part of the culture of rural towns in Australia that the bank manager was a pillar of the local community. Is it your evidence that that status has considerably fallen away in the recent past?

Mrs Brown—It has disappeared.

Senator BRANDIS—When did that change happen? Was it in the seventies, the eighties or more recently?

Mrs Brown—When banks simply started closing down.

Senator BRANDIS—What about the banks that did not close down? In the slightly larger rural towns, is it still the case that the manager is the pillar of that community, or is there such a rapid turnover of staff now that that has also caused the status of the rural bank manager in the community to be diminished?

Mrs Brown—I can speak only for Molong. The Commonwealth has kept its branch. It closed Colonial when it took over Colonial, but it has kept its branch and it has kept a manager. She would have been there now for about six or seven years. Yes, she is still held in high esteem.

Rotary still chases her every year to ask her to become a member, and she declines gracefully. We would invite her up to the local school to present prizes and things like that. She still carries a certain cachet.

Senator BRANDIS—What I think a lot of the people from the big cities miss as well is the close social integration of country towns. My impression has always been that the bank manager was a very important part of that close social integration—that was a person who, for a start, could not very quickly be substituted and replaced by a newcomer and their removal when a branch closed caused a lot more disruption to the fabric of the town than the departure of the banking facility did. Would you agree with those observations?

Mrs Brown—I would agree totally with that—and it is not just the manager, because once a manager goes the staff go. As I said in my opening statement, the staff of a bank were a huge part of that fabric. They simply were. We do not have enough people not to have new bodies. You need them for breathing life into a lot of little rural communities. These were new people who came in who you knew were going to stay for a couple of years at least. The manager, you assumed, was going to stay for some time. There was always a certain resentment if he had manufactured a loan for you and he disappeared. When people came into the town with nowhere to stay, who were going to be there for temporary work and so on, the bank manager was the person who knew where good board and lodging could be found and things like that. They really were very important people in a country town.

Mr CIOBO—I have a couple of questions. I am very sympathetic to points that you raise. I myself grew up in a country town. Whilst I am sympathetic to your points, the reason for the rationalisation of a lot of the bricks and mortar presence that banks had was obviously the fact that it was uneconomic for the banks to retain those premises. We have had various witnesses today who have given testimony along lines similar to yours—the need for a social charter, the need to impose community service obligations and the need to have an actual physical presence—but it comes down to the issue of dollars. How would you envisage that the types of things you have been talking about—the actual physical presence and the increased training costs to which you refer—are paid for? Would you happily forgo smaller profit margins on home loan rates? Would you be happy to comply with higher banking fees and charges to pay for the kind of presence you are talking about? Would you see that being confined to the populations that reside in those regional areas, or would you see people in metropolitan areas also paying increased costs to cross-subsidise the provision of that sort of infrastructure to our regional cousins? Where do you see the funding for these types of services coming from?

Mrs Brown—Frankly, that is a hypothetical question, because they will not go back.

Mr CIOBO—But that is what you are talking about today.

Mrs Brown—One of the things I do not understand is why banks have moved into demanding such excessive profits. To me, banking, to a large extent, has a social function. There was a certain demand made, and I do not know whether it was made by government or by banks. When I started working, I got a cheque in my hot little hand and I trotted off on my way home from Blacktown—I was living in Sydney at the time—to Grace Bros or DJs at Parramatta, and they cashed my cheque for me. Then came a time when I had to supply a bank account number, because I could no longer collect a cheque. That is a tiny example, but it spread across the social spectrum and now banks get customers' money fed in willy-nilly, whether customers want that or not. So what are the obligations of banks to society? I put that question to you, in response to your question. What obligations do, or should, banks have not to customers, not to shareholders and certainly not to CEOs but to our society?

Mr CIOBO—That is the very essence of what we are discussing today.

Mrs Brown—It is.

Mr CIOBO—That is what I am saying. To a large extent, I took it that you would like to see the banks' responsibilities include the types of things that you have submitted. An earlier witness put it to this committee that we should in fact make the community service obligations of banks extend along the same lines as what you have been talking about. All I am saying is that, if we run with that argument for the time being and with what you have put forward, there is a cost associated with doing that. I am asking how we fund that cost. Where we as a government—and I use that word in the collective sense—draw the line about the community service obligations of banks and other financial institutions is up to us and is based, to a certain extent, on the political climate of the day. But there is obviously a cost involved with all these things, so I am simply asking you this question: if we were to require of financial institutions the types of presence that you are talking about, who should bear that cost?

Mrs Brown—Take the example of a bank that feeds back very solidly into its community, works hand-in-hand with its community and is still profitable. It lost money, by comparison, in the last financial year because it was re-establishing. That is the Bendigo Bank, a community bank. It does not bleed a community, and it feeds back in. I was probably very naive or just utterly unaware, but as I grew up I did not have a clue. Banks were just those big buildings that sat on the corners of every street in your town, and the bank manager was always a male who you called 'Mister'. They were bank people, and there were banks. My mother and father, who were products of the Depression, were both always absolutely frantic in case they ever fell behind with anything at the bank. That is the background I grew up with. But those banks did not bleed us—and I would argue that without having any facts whatsoever at my fingertips.

Senator BRANDIS—I suppose the banks would say that the rural banks are not their profit centres, that they could invest their capital more profitably elsewhere. They would no doubt take umbrage at the suggestion that they are bleeding rural Australia when, in fact, they are investing in rural Australia when that capital could be invested more profitably elsewhere, either in the cities or indeed offshore. For example, one of the big four banks—and there may be others as well—does a lot more business in Europe than it does in the whole of rural and regional Australia combined and makes more money out of that business.

Mrs Brown—And some of them do big business in the States and things like that.

Senator BRANDIS—Or did.

Mrs Brown—Or did. But—

Mr CIOBO—Mrs Brown, I would like to add one thing because it ties in directly with what Senator Brandis said. There was evidence from one of the banks this morning that for every $1 in deposits the bank takes, it reinvests $2 into regional centres.

Mrs Brown—I know we are looking in this submission at rural and regional Australia, but how many city, urban bank customers are wandering around with placards that say, 'I love my bank'? A lot of the objections that I have raised are the same objections that a lot of urban people make.

Senator BRANDIS—There are also different ones.

Mrs Brown—Yes.

Senator BRANDIS—A lot of them are in common, but there are—and that is the focus of our inquiry—some very specific issues for regional and rural people that we want to focus on.

Mrs Brown—My contention is that the banks have continued to raise fees. For what?

Senator BRANDIS—I do not know. If there were a bank economist here, I suspect that what they would say in answer to your rhetorical question is: 'One of the reasons we have raised fees across the board is so that we can fund our less profitable operations in rural and regional Australia.'

Mrs Brown—What are their less profitable operations in rural and regional Australia that they are still funding? They make loans to farmers and get their interest back—sometimes in the next generation or the generation after that. You all know that the definition of child abuse for a farmer is: 'Leave your property to your children.' The banks get it back. It is not like they are going without. They are not supporting communities. In my submission I talk about—

Senator BRANDIS—What about Mr Ciobo's point—those figures he quoted to you?

Mr CIOBO—I was just saying their testimony is that for every $1 in deposits—

Mrs Brown—Two dollars is—

Mr CIOBO—admittedly it is just deposits, but irrespective of that, for every $1 in deposits—they reinvest $2 back through their bank into those regional centres.

Mrs Brown—Regional centres have a lot of trouble seeing that.

Senator BRANDIS—That, perhaps, is the point—that regional centres have, partly borne of the culture of which we have been speaking in the past, an expectation of what banks ought to be doing for them that just does not stack up against the hard, cold economic facts of life. All rural producers, by definition, are themselves business people, so they would know in their own rural business, their farming business, that if for instance there is a particular crop or type of livestock that earns them more profit than another line of business, they ought to concentrate their efforts on that crop or type of livestock. The same principles apply to banks as to any business—that is, they want to invest their capital where they get the greatest return. The evidence is that the greatest returns that banks get are not in rural and regional transactions and rural and regional business, and yet they do continue to invest in those less profitable areas of their operations and, in some cases, cross-subsidise them. I am being the devil's advocate here.

It is hard to see an answer to that but, when you say bank fees go up, one of the reasons I say that bank fees go up is to help keep those less profitable rural and regional operations alive.

Mrs Brown—They need to do a lot more publicity about letting us know what they are, because we are unaware of them. The other thing comes back to what I said: banks by their very nature are not just business institutions.

Senator BRANDIS—That is the core of the question for this whole committee and, I think, the point of the differing perceptions. People like you, Mrs Brown—and I am not criticising this point of view—regard banks as social institutions to deliver a service. The question that I think we all have to confront as parliamentarians—or as leaders of rural communities, as you are—is to what extent that is a realistic perception of the role of banks. Banks are private commercial enterprises. They do have obligations to their shareholders and they do have an obligation to make a profit.

Senator MURRAY—Isn't the proposition from people like Mrs Brown just really straightforward? If banks or financial institutions will not provide the services, they should be made to do so in the same way that Telstra was made to do so. Telstra would not be doing what it is doing unless the government had made it—

Mr CIOBO—That is why I ask: who pays for it?

Senator MURRAY—and that is the social charter thing. In the case of Telstra, their shareholders, which include the government, are paying for it. In the case of the banks being made to do it, their shareholders will pay for it. They might have to recover it from consumers; they might not be able to.

CHAIRMAN—Isn't the government partly paying for Telstra out of the proceeds of Telstra?

Mrs Brown—We still own Telstra, don't we? We are still 51 per cent owners of Telstra, aren't we? When Mr Howard—I know this is going off on a tangent—said he hoped to make us all shareholders, we were shareholders. Telstra profits were ploughed back into the government economy. If the little electorate is not part of that recipient role, who the heck are we?

Senator MURRAY—The point I would like to come to is: if you accept that, along with water, energy, communications and transport, the provision of financial services is an essential service, then in all those other areas government does make the businesses, whether private or public, provide the service.

Mrs Brown—Yes, and I really cannot see why regulation of financial institutions is such a horror when we are so regulated in every aspect of our daily lives. If you think about it, you cannot cross a road when you want to.

Senator BRANDIS—The banks are very thoroughly regulated; you heard APRA's evidence before. The banks are subject to a very specific and unique regulatory regime, which reflects the unique nature of their business.

Senator MURRAY—But it does not put a social service on it.

Mrs Brown—It does not reflect their social charter role.

Senator BRANDIS—I agree with you, at the moment it does not.

Mrs Brown—As I said, we cannot take cash in hand from an employer. It has to go through a financial institution. They are an automatic part of our society—they are an ordained part. Why the heck shouldn't they, in exchange—

Senator MURRAY—Mrs Brown, if we accept your proposition that the banks must be made to do it, you then have to consider Mr Ciobo's proposition, which is how it is paid for. Part of that proposition is the question: can you minimise the cost? One of the things that came through us today was a way in which the extension of financial services has been minimised by the Commonwealth Bank. It has ridden on the back of the services already provided by the post office and been able to get in their financial services cheaper. Another way in that services could be provided cheaper by financial institutions is by them sharing premises.

Mrs Brown—Yes.

Senator MURRAY—We have had evidence that the Trade Practices Act makes it difficult for banks to share facilities, which would be a cheaper way of doing things. You would have one bank manager and a few members of staff, and all four banks—and perhaps other institutions—would be represented. Would there, from the point of view of the Country Women's Association's experience, be any problem for country customers in going into a bank where there was more than one institution?

Mrs Brown—I would think not, because the mind-set after all is that you are going to the bank. Every person there would be trained as bankies and would be exclusive in the sense that they would be working there and not going off to serve another institution. People who go to the bank are in there to do banking business; they are not in there to do other things.

CHAIRMAN—Mrs Brown, thank you very much for appearing before the committee and for the lively exchange that we have had. It has been very helpful for the committee's deliberations.

Mrs Brown—Thank you.

[4.45 p.m.]

FOWLER, Mr Jonathan, National President/Spokesman, Small Business Association of Australia

CHAIRMAN—Welcome. The committee prefers that all evidence be given in public, but at any stage you may request to give evidence or part of your evidence in private and we will consider a request to move in camera. I invite you to make a brief opening statement and then we will proceed to questions as we do not have a written submission from you.

Mr Fowler—I looked at that. You were doing inquiries and I thought, 'Why duplicate it?' I find that the banks are irresponsible. They are ill-trained and they do not really care. I will give you three examples that happened in the last day. Yesterday, I went to—can I name the bank?

CHAIRMAN—Yes, you can name the bank.

Mr Fowler—I went to St George yesterday to make a deposit. The girl at the counter could not understand the name of the account. Eventually I had to explain it to her. Obviously she is new. When that was over and she got it together—she spoke to two or three other people. Obviously she cannot read or understand the way the bank account was styled. Then I asked her for $10 worth of 50c pieces—this is in Balmain. She said, 'I'll have to go and get some'—$10 worth of 50c pieces. She went outside; she could not get it. She spoke to the next teller, who was a man, and he said, 'Just hang on a tick while I finish off this customer.' I did not say anything. Eventually, he came along and said, 'Ten dollars, was it?' He went somewhere out the back and came back with $10 worth of 50c pieces. I said, 'I'll now have $6 worth of 20c pieces.' He said, 'We haven't got any of those.' This was yesterday.

Last Thursday I went through the same exercise. This time I went down to the bank and I wanted a draft to send overseas. They did not have any drafts, so they could not do the draft. I asked for 50c pieces and also 20c pieces—they did not have any at all. This is a bank—this is St George Bank. I made the comment, 'Why don't you have it?' She said, 'It's bank policy.' I said, 'Well, is it head office policy?' She said, 'Yes.' I said, 'Good. Do you know where I'm going on Thursday at 12 o'clock?'—this is another one to go on the list—'I'm going to see the General Manager of St George and I'll find out, one, whether you are telling me a fib or, two, whether it's policy.' They have invited me in, together with one or two other people, to have lunch and discuss the problems of the bank.

Let me tell you what they did the other day. Only one person signed the draft that I bought two weeks ago. I rang the bank. The biggest problem with the bank is that you cannot talk to anybody. You ring—'Press one, press two, press three, press four'—all this sort of crap. You cannot talk to anybody. I could not talk to the bank manager at my branch because they would not give me the number, so I talked to some donkey at a service centre, and that person then talked to the bank, and then they came back to me—a three-way deal; no satisfaction. I then rang business banking: 'I can't help you with the draft'—this is business banking—and I waited 10 minutes for that. Finally, I rang the general manager and gave the general manager's personal assistant a rough time.

So I am sending a draft to Scotland. If that draft is not signed by two people, it will be bounced. It will then come back to Australia, and the money is not in my account. If I wish to pay Uncle Bill some money for his birthday, I cannot do it. The cheque comes back to Australia, they then find it has one signature and I get charged $75 for a bounced cheque. Can you see the bank giving me $75 because they did not sign the cheque properly?

So eventually the PA says, ‘Go over to the bank and get someone to sign it.’ I said, ‘Me get in my car and drive over to your bank at Strathfield, which is a good 25 minutes away from Drummoyne?’ Bingo—end of session. I finally said, ‘Get someone out here. Get them off their backside—they have a car.’ The regional manager for New South Wales finally turned up 2½ hours after I bought the draft at 10 o’clock in the morning. Brilliant service! He came in and signed it. I made four phone calls, was screaming my head off and you tell me that banks are offering a service! Only two days ago—and I think you should look at this—the bank, Westpac, sent out their new charges. Are you aware of those?

CHAIRMAN—No.

Mr Fowler—As for the new charges, if I walk into the bank to see a teller, at the moment I get charged 17c. As from 1 March, when I walk into the bank I get charged 37c—just to make a deposit at the branch where I am going to put the money in.

What they are not doing is having specialised people available, and I will finish up with a third example. I went to my post office box today and I noticed that the bank had closed an account because it had not had a lot of activity, so I then went back to the branch and spent 35 minutes plus 10 minutes in a queue. The girl behind the counter had no idea of the uncollected moneys, or whatever they call them, that have gone to the government. She went around and asked this person and that person and this person; meanwhile I am standing there waiting patiently. Obviously, she had never dealt with uncollected moneys that had gone to the government for which you then have to make an application to get them back. I started that at three o’clock at the Commonwealth Bank in Martin Place today and finished that at about 10 to four, because the girl behind the counter had no idea how to do the job. We as an association maintain that you have tellers who do the money side of it, you have an information stand and you do not put a young teenage girl on that information stand; you put on that stand a lady who is an assistant manager, so that she, with her experience and knowledge of how the bank runs, can give me quick and correct service. But they put young girls there and they get abused by customers because they do not know what to do. They are in tears half the time: ‘Don’t raise your voice at me.’ You don’t believe that happens?

CHAIRMAN—I am sure it happens.

Mr Fowler—You ring any bank, talk to the girl when you get through, after five or six or seven or eight or nine or 10 minutes, and then turn around and start to be stroppy with her. ‘Oh, don’t you swear at me. I can’t stand this’—and she hangs up. Is this service?

The other question that you asked Mrs Brown was this: when did the banks start to go downhill? I can tell you when they started to go downhill. It was when fringe benefits tax came in on 19 September 1985, because suddenly the fringe benefits tax had to be paid on the bank manager’s residence, the policeman’s house, the stationmaster’s house, the postmaster’s house and the teacher’s house. When all these people went out, they had accommodation; it was part of the deal. If I am going to send you to Cumnock, then you have to live in Cumnock or you have to drive from Mowlong, Orange or Wellington every day. This is when it started. They stopped doing that, they closed the branches and they closed the bank managers down.

We as an association recommend that, if you go into business anywhere in Australia tomorrow, you talk to your advisory committee. For a prospective small businessman the advisory committee consists of the association, who gives advice; the accountant, who gives advice and prepares the tax return; the bank manager; and the solicitor. Today, accountants are too damn busy with GST and they are giving customers away. The bank manager no longer exists, because banks don't have managers anymore—they got rid of them all—and they are trying to do it all on the computer. People, including me, are not computer literate in banking.

I will show you how bloody stupid the banks can be. I have a cheque account and, through that account, I have an EFTPOS card. In the last two weeks I have received three EFTPOS cards—three, not one. I also received a letter from the general manager of the national bank's cards for Australia—the senior person in charge of cards for Australia. She said, 'The PIN that you have will work with the EFTPOS card that I have just sent you.' So I went out to the machines, which just happened to be out the front; it didn't work. I went and used the other two cards which had already been sent; they didn't work. I then rang the bank. It took 35 minutes for some dopey dill to answer! So here am I with three cards sent from the general manager of this section of the bank, who says, 'Yes, use your PIN,' and it doesn't work. As a result, 35 minutes later, I have to go to my bank, which happens to be at Five Dock, which is 20 minutes away by car. I then have to sign for a new card and then get a new PIN. In the meantime my money is sitting in the bank and I cannot use it! Is that brilliant service?

And you wonder why I get stroppy about the bank nationally on television and at other times when people interview us about the service. It doesn't matter where you are. I bank with Westpac. If I am driving down the highway to Melbourne I can deposit at Holbrook. I can only deposit; I can't get a balance, because they have used a shopfront—that is, the post office doing a banking service. The banking service does not exist. They can't give you any money—they can only take the deposit—and they can't tell you what your balance is. Having a shopfront exercise and leaving it to a small businessman, who has to be running a bank, will not work.

Another 12,148 other stupid idiots like us do postage stamps as a service. We buy them for 45c or 50c and we sell them for 45c or 50c, because that is the rate—no commission, no nothing. We turn over $25,000 in our little shop in Drummoyne. That is $25,000 which the post office gets. We do it as a service for all the wonderful people who shop in Birkenhead Point shopping centre. As a result of that, sometimes you get wiped out with stamps. You then have to shut your place of business, put up a sign saying, 'I've gone to the post office,' and buy more stamps. This morning I spent $380 on express bags and postage stamps.

These are the problems. If you are going to have me as an agent for Westpac, or any other bank, as the manager of that outlet I have to know all about banking. So the owner of the business not only has to sell his little cups of water every day but also has to go and find out all about banking and how it works, because when you walk in you want service if I am going to be a bank, and it doesn't exist. I would remind you of the days when we had the seven, nine or 10 strong banks in Australia—well within your living memory of advertising. Wasn't it funny that every one of those banks made a profit? None of them went broke. Agreed, the profit might only have been $20 million, $30 million or $40 million, but they made a profit. Now the banks are making $1,000 million, $2,000 million—that is $2,000 million; get the message and get the figures through your brain—and they are going to increase the face-to-face contact when you go to the bank by 110 per cent.

CHAIRMAN—Mr Fowler, we have to catch planes for our next day of hearing in Melbourne tomorrow. I think you made your three examples pretty well. Can we move to questions?

Mr Fowler—Yes.

CHAIRMAN—A lot of the issues you have raised relate to the changing nature of banking services.

Mr Fowler—They do not exist. They want everybody on computer.

CHAIRMAN—That is what I am saying: there is a movement towards Internet banking and telephone banking and so on. Do you think the banks have the capacity to familiarise customers with those procedures in a better way and thereby ameliorate the issue?

Mr Fowler—They would need a training program and they would need to start it now, because 600,000 of us in business across Australia are over the age of 35 or 40 and we are computer illiterate. Our kids and your kids, who are eight, nine and 10, in 20 years time will be computer illiterate. That is the problem. People ring me up every day, and I say: ‘Do what you are doing and don’t change your system. You are making money. You are buying and selling the stock, you are making sales and you are employing staff. You are paying tax and doing superannuation. As a result of all of that, you are making money and employing people. If you try to change over, then instead of you looking at and talking to the customers you will find that in 30 years time the customers will be in front of a computer. They won’t be talking to you as customers. If that is the way you want the operation to go, great.’ But that is the problem. The government—your government—is forcing people to do that by using the inquiry number. You have an inquiry number on the Internet to do with small business. It does not work. I think it is called business entry.

CHAIRMAN—The single Business Entry Point.

Mr Fowler—Yes. That is the greatest waste of time that I have ever seen. You do not bother about it anymore because either you cannot understand it or you find it difficult to understand. Because it is fairly technical, it does not help the small businessman. That is the situation. All of these things are the reasons why the revolt is happening out there. A lady coming in and wanting to cash a cheque from work cannot do that anymore. Why not? The other issue is investing money. We are suggesting to people that you run a long service leave account—a simple savings account—and that every three months I put your long service money into the account so that in 15 years time, when you want to take your long service leave, I have the money set aside. It should not be in balance sheets as a contingent liability so that when the firm goes belly up there is no money to be had anywhere. If they moved it out and it was in a savings account, the bank would have the money. Suppose you, as a committee, recommended—as we recommend to this inquiry—that the bank charged two per cent interest. Do you know what the bank charges on a savings account at the moment?

CHAIRMAN—Charges or pays?

Mr Fowler—Pays.

CHAIRMAN—It varies, depending on the amount deposited.

Mr Fowler—It does not vary at all. If you have a savings account with the bank today and you have $1,000 in it for 12 months, what is your interest?

CHAIRMAN—I do not know.

Mr Fowler—I would suggest, Mr Chairman, that you have a look at it. It is one per cent—$1 per $1,000. We are saying that if we are going to run this long service leave account structure the banks will have to pay. If the government has to bring in the regulation then so be it. The bank pays two per cent and the account is tax-free. In 15 years time, as the money goes in and the interest rate compounds, there will be enough to meet your long service leave payment outside of the funds of the company and, if they do go belly up, the money is still there. That is not the most difficult way to present money. We have presented it to government before and they just wrote back and said, 'Oh yes, we note your thing' and 'Forget it, Jack.' However, that would save a lot of people a lot of heartache. Just imagine if the people in Ansett—

CHAIRMAN—I think that is beyond the terms of this inquiry, which is looking at banking services in particular—

Mr Fowler—We are talking about banking services.

CHAIRMAN—No, that is a different area. It is not really talking about banking services. It is talking about—

Mr Fowler—We are talking about money on a savings bank account with $1,000—

CHAIRMAN—No, you are talking about making it tax-free and other issues which are not related to this inquiry.

Mr Fowler—If they are not related I am sorry about that.

CHAIRMAN—However, it is good to hear about that issue.

Mr Fowler—I am sorry to waste your time.

CHAIRMAN—Thank you very much for your presentation, Mr Fowler.

Mr Fowler—Let me say this: I have taken the afternoon off. I prepared myself to come here today. I don't like the bad manners of the other members of the committee. You were supposed to be here at 4.30 p.m. We came in at 4.50 p.m. and you have given me 15 minutes and everybody else has had half an hour. I just feel—

CHAIRMAN—I apologise for that, Mr Fowler.

Mr Fowler—It's no good making an apology. I came in to talk to the committee.

CHAIRMAN—I think the committee stayed to hear your evidence. They did not have any questions. I was the only one who had a question.

Mr Fowler—Do you mean to say that the other guys have no questions on small business and its banking problems?

CHAIRMAN—The particular issue of interest for this inquiry is actually rural and regional banking—

Mr Fowler—That is exactly what I am talking about.

CHAIRMAN—not small business as such.

Mr Fowler—Small business is out there and if your small business goes broke in the town, that means people are out of work and, as a result of that, the town suffers.

CHAIRMAN—I think they might have heard your evidence relating to small business in the metropolitan area and therefore it did not raise any particular questions—

Mr Fowler—The same thing applies even worse—

CHAIRMAN—that they required answers to. They took your evidence on board but did not have any questions to ask.

Mr Fowler—But what about the country towns—all of them? I could go through 25 country towns off the top of my head but you are not interested. I am sorry I wasted your time and my time.

CHAIRMAN—No, you haven't wasted my time, Mr Fowler. I am just saying that my colleagues did not have any questions. They stayed and heard your evidence. I had a question which I asked and which you answered.

Mr Fowler—You had the other girl for half an hour and you had me for 10 minutes. I'm not at all impressed. Good afternoon; thank you for letting me come in.

CHAIRMAN—Thank you.

Mr Fowler—Maybe next time you have an inquiry I won't even bother coming in. I think it is important to get the message across. I don't think you people in parliament have any idea what is going on out there. I am sorry for being rude and abusive but I thought there was going to be something constructive. Obviously they couldn't wait and you are only here out of the goodness of your heart and I thank you.

CHAIRMAN—Thank you, Mr Fowler.

Committee adjourned at 5.08 p.m.