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JOINT COMMITTEE ON CORPORATIONS AND FINANCIAL
SERVICES

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

FRIDAY, 23 MAY 2003

TOOWOOMBA AND BOONAH

BY AUTHORITY OF THE PARLIAMENT

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JOINT COMMITTEE ON CORPORATIONS AND FINANCIAL SERVICES

Friday, 23 May 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: Senator Chapman, Senator Murray, Mr Griffin, Mr Ciobo

Terms of reference for the inquiry:

An inquiry into the level of banking and financial services in rural, regional and remote areas of Australia.

The Joint Standing Committee on Corporations and Financial Services adopted the following terms of reference on **26 June 2002**.

The Parliamentary Joint Committee on Corporations and Financial Services 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

FLINT, Mr Ian Charles, Chief Executive Officer, Boonah Shire Council..... 500
READ-SMITH, Mr Fraser Douglas, Chief Executive Officer, Heritage Building Society Ltd..... 489
SMITH, Councillor Robert Bruce, Deputy Mayor, Boonah Shire Council 500

Committee met at 9.26 a.m.**READ-SMITH, Mr Fraser Douglas, Chief Executive Officer, Heritage Building Society Ltd**

CHAIRMAN—I welcome those present today. This morning in Toowoomba we are continuing our public hearings on our inquiry into the level of banking and financial services available to Australians living in rural, regional and remote areas of Australia. Later this afternoon we will continue our hearing in Boonah. I should reinforce that all witnesses appearing before the committee are protected by parliamentary privilege with respect to the evidence that they give, which gives them special rights and immunities in relation to any evidence they give being of disadvantage to them. If there is any act by any person which operates to the disadvantage of a witness when it comes to the evidence they give before a parliamentary committee, it is regarded as a breach of privilege. This is also a public hearing and all members of the public are welcome to attend. The committee prefers that all evidence be given in public but if at any time you wish to give some evidence in private then you can request that of the committee and we will consider such a request to move to in camera. I now invite you to make an opening statement, at the conclusion of which I am sure the committee will have some questions.

Mr Read-Smith—Mr Chairman, thank you for the opportunity to meet with the committee. In my statement I will briefly give the committee some background regarding Heritage, a brief understanding of the society's business philosophy, an outline of its distribution network and an overview of our community banking and Internet banking activities. This outline is meant to give the committee some understanding of how Heritage, as a medium-sized financial institution, is trying to meet the challenges of providing financial services in regional and rural areas.

Heritage can trace its history back to 1875 when its forebear, Building Society Toowoomba Permanent Benefit Building and Investment Society, was established by a gentleman by the name of W.H. Groom. The committee would be interested to learn that Groom had been transported from England to New South Wales as a convicted felon at the age of 16 years for committing some minor larceny. He ended up in Queensland and in Toowoomba in the 1840s. He became the editor and owner of the local newspaper; he was the first Mayor of Toowoomba; he was a member of the state parliament for many years; and, after leading the fight against Federation, which the Darling Downs voted against overwhelmingly, Groom was elected in 1901 to the first federal parliament. He passed away soon after, and he was father of the House at that juncture.

Heritage, as we know it today, came into being in 1981 when the Toowoomba Permanent Building Society and the Darling Downs Building Society merged together. Today, we are Australia's largest building society, as measured by assets under management—in excess of \$3.5 billion. We are an authorised deposit-taking institution and licensed under the Banking Act to conduct banking business. We are Australia's second largest regionally based ADI. We are supervised by the Australian Prudential Regulation Authority and, as we can show, we are a modern, state-of-the-art financial institution using the latest distribution channels to offer a wide range of banking and finance products and services. Basically, they are in the area of personal banking, business banking and risk management.

As you may have heard yesterday when you were at Crows Nest, we are a mutual organisation. We seek to be the preferred provider of financial risk management services and products to our members. We do this by providing our members with excellent value, user-friendly service, reliability and convenient access. Mutuality is fundamentally important to this organisation; it means that we have no shareholders, only members: our customers. In contrast to the profit-maximising banks, the society's focus therefore is on providing value to its members; its customers. We pay no dividends and, because we pay no dividends, we can provide benefits above the line to our members in the form of better interest rates, no account-keeping fees, highly competitive transaction fees, no Internet or telephone banking fees, longer opening hours and more friendly personalised service.

We believe that the society's regional base gives it a unique character and helps it to make it a more customer-focused financial institution. We believe that this is a key element of the society's success. By the way, we have a 90 per cent customer satisfaction rating, which is way above that of comparable financial institutions.

We are about providing financial services to members in the way that they find cost effective, convenient and reliable. We provide a wide array of distribution channels. Our physical distribution network is focused in south-east Queensland and northern New South Wales. We go as far north as Mackay; west to Roma, St George and Dirranbandi; and south down to the Northern Rivers area of New South Wales. We are also, obviously, represented in the greater Brisbane area, on the Gold Coast and on the Sunshine Coast, and in the past five years we have opened offices in Sydney, Melbourne and Adelaide. We have 105 branches, community branches, mini-branches and lending offices; 57 per cent of these are located in regional and rural areas and 57 per cent of the society's proprietary ATM network is also located in regional and rural areas. We are also part of the Cashcard ATM network, which is Australia's largest ATM network.

We are the largest ADI on the Darling Downs with 32 branches, community branches and mini-branches, and 32 ATMs. In the past four years the society has opened five new branches in regional and rural areas—Crows Nest, Kingaroy, Nanango and two in the Toowoomba area—with a further new branch to be opened in Stanthorpe next month. Additionally, seven new mini-branches have been opened by Heritage in regional and rural areas since 1999-2000 at Bell—which is an RTC—Kilcoy, Esk, Dirranbandi, Ballina and Landsborough. We also provide Internet and telephone banking services and we are a member of the giroPost network.

I understand you spent some time at Crows Nest yesterday. That community banking facility was established in 1999. By any measure it has been an outstanding success. The facility was profitable in its nine months of operation and cumulatively profitable after 13 months. As I am sure you would have heard in the past month, our community partners at Crows Nest, PCCN, have announced the first distribution from its share of the community branch profits in the form of community grants totalling \$46,000 to a range of local community projects in groups. I think there were 21 in all.

Subsequently, a community branch was established at Nanango in December 2001. This has been a great success, achieving profitable operations after six months, and was cumulatively profitable in its ninth month of operation. We are currently involved in the establishment of a new community branch at Highfields, which is in the early stages of development.

The key characteristic of our community branch model is the low level of community contribution—financial contribution—that is required to establish these facilities. Also, there are no franchise fees or renewal fees that are paid to Heritage. Heritage assume all the credit risk arising from the operation of our community branches. We do not charge for staff training costs and, at the end of the assignment period, the community members that have deposited funds as part of the community's contribution to the establishment and working capital costs of the facilities are redeemable by members of the community.

I will move on to Internet banking, which is another recent expansion of our distribution capabilities. We established our Internet banking service, Heritage online, in 1999. Today, 35 per cent of members deal with Heritage via Heritage online. From a standing start four years ago, 1.25 million transactions, financial and non-financial, are put through Heritage online each month. It is estimated that the level of financial transactions now processed through Heritage online is the equivalent of the transaction processing of between 14 and 15 branches. As I mentioned earlier, we do not charge transaction fees for Heritage online.

In April 2003, members using Heritage online averaged 16.7 transactions—that is, both financial and non-financial—per month. This compares with an average of 2.4 transactions per month for our automated telephone banking service. I think this demonstrates the utility of electronic banking to those people who are comfortable with this form of distribution. However, we are not in the business of force-feeding people into using distribution channels that are convenient or just simply cost-effective to the society; they have to be comfortable with whatever distribution channel they are dealing with. We set out within limited means to meet these needs to give our members choice. These are some of the ways that we at Heritage seek, as a regionally based financial institution, to meet the financial services needs of people living in rural and regional areas. It is an exciting challenge and one that we are committed to meeting head-on.

CHAIRMAN—Thank you very much for that introduction, Mr Read-Smith. Can I ask this question first: of the range of financial services that perhaps the majors provide, particularly some forms of lending to businesses and so on, are there any areas that Heritage is not able to meet?

Mr Read-Smith—We are not involved in rural lending. As I mentioned, we do personal or retail banking and we offer a very wide range of products and services, and I think our products and services would compare well with the majors. We are involved in business banking; this is a relatively new development for the society. It is something we have been doing for three or four years but it is expanding rapidly. We are involved in providing risk management services in the form of various insurances to our members or customers. Rural lending is not something the society has been involved in. We have some referral arrangements with other organisations, where we refer on people who potentially require rural loans. That is the way we cover that area. We are obviously not involved in large corporate banking. We are not involved in treasury operations in terms of trading and those sorts of things. We are very focused on our core business of retail banking.

CHAIRMAN—With the business banking you do, are you able to loan to business operators—

Mr Read-Smith—Yes.

CHAIRMAN—without necessarily requiring real estate assets as security against their business?

Mr Read-Smith—Yes, that is correct. As an organisation, historically, we try to take real estate security but, in dealing with business operations, for lending purposes we look in the right circumstances to the value and cash flow of the business.

CHAIRMAN—The fact that you do not do rural lending is just a policy decision—it is not a regulatory issue?

Mr Read-Smith—No. It is a policy decision. We have been operating in a regional area for many, many years, obviously, but we have been dealing more in the townships of these areas rather than with people on the land.

CHAIRMAN—I note from our investigations yesterday, and also from what you have said this morning, that you have established these two joint venture community banks in Crows Nest and Nanango. In that same time period you have also opened new branches. What was the decision making process in terms of your decision in some areas to open a branch but in these other two spots to do the joint venture with the community?

Mr Read-Smith—Of the 105 distribution points that I mentioned, about 40 of those are full branches, and two of those are community branches. We have three models: branch, community branch, and then a mini-branch which is really an agency—I think Westpac would refer to them as in-store branches. It is something that Heritage has been doing for 30 or 40 years. It is a question of just analysing what we see as the business potential of different locations and then selecting the model that we believe will best fit those locations. For example, in Crows Nest it would have been difficult for us to set up our own full branch. Entering into a partnership in the community was the way we thought it would be most viable. The smaller the community, the less opportunity there is to open up our own branch. In communities like Crows Nest, where you are dealing with a few thousand people, the community banking model that we have developed can work very well.

CHAIRMAN—In regard to the Crows Nest RTC, some of our witnesses earlier in other areas have referred to the relatively slow process involved in getting an RTC established. I was wondering what your experience was.

Mr Read-Smith—We are involved in RTCs also at Dirranbandi and Bell. They have worked very well as far as we are concerned, but I think it is fair to say that it has been a fairly cumbersome process and it is time consuming. Of course, it involves the distribution of public moneys and that is something that has to be done very carefully. The process has worked very well overall and it is something that we would like to see continue.

CHAIRMAN—Do you have any suggestions as to how the process might be streamlined?

Mr Read-Smith—I do not specifically, Mr Chairman. Obviously we focus on it from a financial services point of view. It is important, in some of these start-up situations, that moneys

are made available to perhaps seed—and I think this is the case already—the initial inquiry and survey costs that are needed to establish the business case for these sorts of projects. Premises can also be a cost issue in the early start-up phase of these projects.

CHAIRMAN—The federal Department of Transport and Regional Services has advised us that, of 65 communities that now have rural transaction centres operating, only 26 deliver a financial service through a bank, credit union, building society or community bank. Have you got any insights as to why perhaps relatively few of the RTCs are actually operating or providing a financial service?

Mr Read-Smith—Firstly, I am surprised to hear that. I would have assumed that it was considerably more, and I cannot give you any insight. All I can say is that it is certainly a concept that we have been very interested to be involved in and, if there is an opportunity to be involved in further similar developments in the future, we will pursue them with a great deal of interest.

CHAIRMAN—Your community branches at Nanango and Crows Nest offer the full range of financial services that your branches offer?

Mr Read-Smith—That is correct.

CHAIRMAN—In a sense, they are on an even par with a branch.

Mr Read-Smith—Yes. It is just an arrangement where we enter into a partnership with the community. We bring the expertise, systems, controls, communications and security. I will make available to the secretary of the committee a brochure that we hand out to communities that are interested in these projects, which outlines in some detail the process and how it operates. That may be a useful document for the committee to refer to. As you mentioned, it is a joint venture between the society and the local community, and the structure encourages the local community to support the venture. Obviously, the community will only support something which offers them good value. As an organisation, as a financial institution, because we are mutually structured in the way in which we do our business, we pride ourselves on offering very good value in all the products and services that we provide to people. So it is not hard to persuade community members to become involved, from a business point of view, with these ventures. That, at the end of the day, is why they are successful.

CHAIRMAN—Apart from the initial slowness of the process, were there any other difficulties encountered in establishing either of those facilities in Nanango and Crows Nest?

Mr Read-Smith—There are several prerequisites that we think are important. Firstly, the community concerned has to have a need for enhanced financial services—that is a fairly obvious statement. There must be widespread community support and involvement, which I have already referred to, and there must be community leaders who are dedicated to the project. We are not in the business of selling community branches to communities. Our business is that, if they determine they have a need and they want to work at it, we will assist them in every way we can to bring it about, but we are not about thrusting these things down the throats of communities. Our view is that it is the community that has got to make the running, have the impetus, and then we will work with them and do all we can. So we are not out selling these

things, although we are currently engaged in a number of dialogues with communities which we hope will lead to the establishment of these facilities.

It is a very good model. It works well for us and it works well for these communities. We have been fairly cautious about propagating it until we believed that it had been properly road-tested, and we can now say with absolute confidence that, with what we have seen at Crows Nest and with what we are seeing at Nanango, it is a model that does work and work very well, so we are keen to develop more of these in the future.

CHAIRMAN—We have had evidence from the Local Government Association of Tasmania that it took two years, in their case, for the council simply to determine whether a community bank was a viable possibility. They estimated that, in determining that viability, it took a capital outlay of about \$25,000 and about an equivalent amount of in-kind effort. Would that accord with your experience in terms of time and cost?

Mr Read-Smith—Cost-wise, that is probably a little higher than we would expect, but certainly \$15,000 to \$20,000 would not be unreasonable. Time-wise, that is a long gestation period. This is an area where, as with the RTCs, government perhaps could play a role. It could be a big impost on a community to raise moneys for the surveys that are necessary to form a view on the viability of business cases for these projects, particularly as it is money that is, in a sense, at risk: it may not lead, depending upon the outcome of the business case analysis, to a project getting off the ground. There is that area, and also the issue of premises is an area that you should consider, too. At Crows Nest, the local council stepped in and purchased the old ANZ branch that you saw yesterday and then made that available to the local community group that is our joint venture partner. In Nanango, the group had to go out and lease premises. The way we do it in our model is that the community are responsible, as part of their contribution to the establishment costs of these arrangements, for providing the premises. That could be an issue for some communities in the future.

CHAIRMAN—Are there any shortcomings in the RTC program that you can identify?

Mr Read-Smith—Not that I can readily identify. We are certainly keen to look at more such opportunities in the future.

CHAIRMAN—What do you see as the strengths and perhaps the weaknesses of the community bank model?

Mr Read-Smith—The strength of it—and it is both a strength and a weakness—is that in the right community, with the right leadership and level of community support, it is a model that works very effectively. It is hard to think of disadvantages. But there are those prerequisites that I mentioned. It is not going to work in every community; from our point of view, it is a question of finding the right communities that have the critical mass, the leadership and the community impetus to make these ventures work.

Senator MURRAY—Mr Read-Smith, you said you were the second-largest building society in the rural and regional areas. Who is the largest?

Mr Read-Smith—We are the second-largest regionally based ADI. The largest would be the Bendigo Bank.

Senator MURRAY—You said you have opened offices in Sydney, Melbourne and Adelaide.

Mr Read-Smith—Correct.

Senator MURRAY—Does that mean you are extending into those capital cities or into those states or regions?

Mr Read-Smith—Basically into the capital cities, although in fact yesterday our board approved an authority for the society to lend throughout the states. Up until yesterday, we had limited ourselves to the major metropolitan areas—for example, lending in Sydney, in Wollongong, in Newcastle and in the greater Melbourne area and Geelong, but as of yesterday we have authority to lend more widely in those states. We are only a medium-sized financial institution; we do not have the financial resources to be able to establish the sort of branch and mini-branch network that we have in south-east Queensland, in places like Melbourne and Sydney and in other parts of New South Wales and Victoria. It is beyond our capabilities. We go into these places basically as a mortgage lender and we use broker networks in order to source mortgage lending business. With giroPost and through our Internet banking service, we can provide wider financial services to people, but the first step in getting them as customers or as members of the society is for them to borrow money for residential mortgage purposes.

Senator MURRAY—It struck us that what has happened in rural and regional Queensland, and in the rest of Australia, is that a market opportunity has opened. Because the banks have withdrawn from many communities, there is an opportunity for the model that you have developed to expand and to place itself. The peculiar virtue of your model is that it is nowhere near as expensive as the Bendigo Bank model in terms of the capital raising requirements and indeed the onus on the parties in terms of the franchise framework that they have got operating. I asked the question about those three states because I would have assumed the market opportunity is rural and regional for that side of your business rather than capital city, which I can see is the attraction for the other side of your business.

Mr Read-Smith—Certainly that is something that we would be open to considering, Senator. My immediate thought is that there is a lot more that we could be doing in south-east Queensland before we ventured into other states. It comes back to the size of this organisation. At the end of the day we have limited resources and it is a question for my board as to how we best utilise those resources for the benefit of our members and the society, but conceptually it would most definitely be possible for us to replicate this model in places outside Queensland.

Senator MURRAY—No doubt you would have thought this but you did not say it: I thought a missing part of your checklist was in fact knowing your market so well. It would seem to me that the survey and analysis of the Crows Nest opportunity and the Nanango opportunity would be enhanced by your long familiarity and the long familiarity of your officers with the area. It would be more difficult for you or for anyone to make equivalent assessments if they did not have that grounded background.

Mr Read-Smith—I am not sure that I necessarily agree with that. Providing adequate initial research and surveys are done, it is possible, with the level of banking expertise and knowledge that we have, for us to be able to determine whether a project in a Victorian town would be viable. The degree of difficulty would be increased rather by the fact that in Victoria, South Australia or New South Wales, Heritage is not as well known or may be completely unknown in these communities, whereas we start with, I suppose, a free kick in this neck of the woods in that it is a name that people are broadly familiar with. If we were to look to do a similar sort of exercise in other places, we would have the additional task of familiarising potential customers of these projects with this organisation and its merits.

Senator MURRAY—The mutual nature of your organisation seems to be a key element for me, for my sins—it might now be a sin, because I was one of those politicians who did not oppose AMP demutualising and I now suspect that I should have voiced some opposition to it. On a fairly superficial basis—because we have only been there and had a look—it seemed to us, from the discussions we had and from what we could see, that the nature of your mutual arrangement means that the culture and attitudes result in a quest for lower returns. You are satisfied with lower returns than, say, the big four. It seemed that your suite of services, back office services, computerised equipment and facilities are as good as they offer. That is just an observation. I wonder, for the purposes of our examination of what is essentially a market opportunity, whether those agencies best suited to get into the community area will be those who are not driven by the sometimes greedy demands of high shareholder returns.

Mr Read-Smith—Let me illustrate how the mutual structure operates. We see it as providing us with a number of advantages but, financially, let me put it this way. For the society to generate \$100 of after-tax profits, which it retains as members funds, we would have to generate a pre-tax profit of \$140. If we were structured as a listed corporation with shareholders and we were paying 66 per cent of our after-tax profit in the form of dividends to shareholders, we would have to generate \$4.20 pre-tax to still be able to retain—after paying our dividends and a higher level of tax on the larger level of pre-tax profits that we need to generate—that \$100 as increased shareholders funds.

CHAIRMAN—Is that \$420?

Mr Read-Smith—Yes, \$420.

CHAIRMAN—You said \$4.20.

Mr Read-Smith—Sorry, it is \$420. The mutual structure is a very cost-effective one. The key issue then becomes: if you have to generate only \$140, the difference between the \$420 that the listed corporate has to generate and the \$140 that you generate can be provided in benefits above the line. We say that we pay a dividend above the line—a ‘dividend’ to our members and to our customers—in the form of better interest rates, lower fees and charges, et cetera. That is the difference, from a financial point of view, in the way the two structures operate. As a financial institution we have to ensure that we operate sufficiently cost-effectively so that the difference is actually crystallised in the form of the provision of benefits to members. So long as we do that, we are able to offer our customers a very competitive proposition.

Senator MURRAY—As the Crows Nest example shows, that transference of benefits can become extremely tangible for local organisations—pony clubs, sports club, SAR operation or whatever—that get a contribution. You are positing there a demand by the corporates, as you call them, for a return of about three times that which would be acceptable to you. How have you worked that out? Is that on the basis of published comparisons or is that an internal review?

Mr Read-Smith—That is an internal calculation. I can, if you are interested, take you right through the arithmetic.

Senator MURRAY—It might be useful for our report if you could perhaps just give us a couple of sheets with some diagrams and figures which would—

Mr Read-Smith—I have got one sheet which shows the basis for that.

Senator MURRAY—That would be perfect for us, thank you. The chairman implied it, but I would like you to be explicit: are there any regulatory or legal impediments, in your view, to making your kind of operation as competitive with a major bank as is possible?

Mr Read-Smith—No, I am not aware of any. The big issue for organisations of the size of Heritage is that obviously we are competing in a market with organisations that are much larger than we are, and people assume they can get more economies of scale because of their much greater size than are available to us. We have found that there are ways in which we can make ourselves even more cost-efficient than our large competitors. In fact, our cost-asset ratio, which is the best way to measure this, is better than the average of the major banks. So it is possible for smaller financial institutions to compete with the big institutions head-on.

Senator MURRAY—From a capital raising point of view, if the community raised the capital—although obviously you have got to provide the resource and the staff back-up—that takes out some of your board's concern, I would think.

Mr Read-Smith—As an organisation, we like to think of it as a sharing or partnership arrangement. We also put in working capital. The amount that the communities put into these things is just part of the community capital requirement. The society is not looking for them to provide it all; it is a sharing of costs and responsibilities on a fair and equitable basis that gives the community and the society a reasonable result.

Senator MURRAY—In terms of start-up and expansion, it does lower your risk, doesn't it?

Mr Read-Smith—Because we are sharing the cost of establishment, our risk is lower, yes. That is absolutely correct.

Senator MURRAY—That is all I have.

Mr GRIFFIN—I was outside for a few minutes, so I am not sure if you have covered Crows Nest. They were the main things I wanted to ask about.

Senator MURRAY—The chairman covered it.

Mr GRIFFIN—Then I shall read the transcript.

CHAIRMAN—I covered general issues rather than detailed specific issues about Crows Nest. Do you have something you want to ask?

Mr GRIFFIN—My main questions were going to be about Crows Nest. If you have covered it, then I will read the transcript.

CHAIRMAN—In terms of expanding the model into other parts of Australia, if Heritage determined it was not efficacious for you to do it because of stretching your resources or whatever, would the model fit some other local building society or credit union in those states that wanted to pick it up, or is it something that is unique to Heritage?

Mr Read-Smith—At this stage it is certainly is unique to Heritage. This is something that can be done in any one of a number of ways. This is a way that we have found that works and it works for us. I would imagine it could be used by other similar financial institutions. It literally evolved by sitting down with the Crows Nest guys and working out a business plan, and it just developed like that. It could have developed in other ways. We established a few fundamental principles and it went on from there. To answer your question: yes, similar operations could be developed by other financial institutions.

CHAIRMAN—If you could just perhaps clarify for me: there are more regulatory restrictions on credit unions than there are on building societies, aren't there, in terms of the forms of loans they can make?

Mr Read-Smith—I am not aware of that being the case, Mr Chairman. We are ADIs, authorised deposit-taking institutions. Building societies, credit unions and banks are supervised by APRA. I am not aware that collectively they have any different sorts of restrictions on their activities than we do. We are just ADIs. From APRA's point of view, obviously each of those ADIs has an individual relationship with the supervisor and they probably have differing capital requirements and things like that for different institutions. But, broadly speaking, they are all supervised under the same regime.

CHAIRMAN—That is something we can check up. I was under the impression—it may be a wrong impression—that credit unions, for instance, had to take real estate security for loans.

Mr Read-Smith—I do not believe so, Chairman, but I will check it out.

Senator MURRAY—I will just make an observation in passing. It seemed to us from the couple of models we have seen, which are the Heritage full-service model and the credit union model at Blackbutt, that the distinction between the two is that yours is both a business and a non-business facility, even though you do not do rural lending, whereas theirs is entirely non-business and they are principally transaction related. Those grades are very useful for different sized communities. I have learned a great deal from that, so thank you very much.

CHAIRMAN—Some of the other smaller ADIs have given evidence to us that it is difficult for them to establish a presence in rural towns. They have cited high start-up costs, difficulties in costs encountered by customers wanting to transfer their accounts from one ADI to another, and

some of the prudential requirements. What is your comment or reaction to those claims that some other smaller ADIs have made?

Mr Read-Smith—I can understand that they would be problems; it is an expensive business. When we open up a full branch—we are doing one in two weeks time at Stanthorpe, where we have had a mini-branch or an agency for 27 years that we are expanding into a full branch—it will take probably between two and three years to become a profitable operation. There are quite long lead times and, depending on the size and the complexity of the branch location, there is a fairly considerable investment required in these things. The cycle we go through traditionally is to establish a mini-branch, build up a customer base in that location slowly over a period of years and then ultimately use that as a springboard for a full branch. When the full branch gets going, we already have an initial customer and business base in that area, and that means that the lead times for these operations to become sufficiently profitable is reduced.

CHAIRMAN—Are the prudential requirements for smaller ADIs an impediment in terms of capital adequacy and the other prudential requirements? Would that be a proportionately greater problem than for the larger institutions?

Mr Read-Smith—It would depend. You would have to look at that on an institution by institution basis, but I think there would be some smaller institutions in the credit union industry where their capital adequacy requirements are higher than they are for the larger organisations, for whatever reason. So that obviously would make it more difficult to achieve the levels of return that you need from these investments.

CHAIRMAN—You mentioned earlier that you have not ventured into the farm lending area.

Mr Read-Smith—Yes.

CHAIRMAN—Is that as a result of lack of experience in that area or lack of demand?

Mr Read-Smith—It is certainly not a lack of demand in an area like this, but it could be lack of experience. This is a very conservative organisation and our board has taken the view that we should stick with our knitting. Going into rural lending would require a different culture and a different type of banking expertise from what we have as an organisation. I would not rule it out as something that we might venture into in the future, but our latest movement in that respect has been into business banking. We have gone from being just a retail banker to now becoming a business banker. That is certainly enough for us to handle in the foreseeable future.

CHAIRMAN—Mr Read-Smith, as there are no further questions from any other committee members, on behalf of the committee I thank you very much for appearing before the committee and for your contribution to our inquiry. It has been very valuable.

Mr Read-Smith—Thank you for the opportunity to address the committee, Mr Chairman.

Proceedings suspended from 10.12 a.m. to 1.09 p.m.

FLINT, Mr Ian Charles, Chief Executive Officer, Boonah Shire Council

SMITH, Councillor Robert Bruce, Deputy Mayor, Boonah Shire Council

CHAIRMAN—I declare this public hearing of the Parliamentary Joint Committee on Corporations and Financial Services open and welcome members of the Boonah Shire Council to our hearing. The committee prefers that all evidence be given in public, but if at any stage you want to give evidence in private you may request that of the committee and we will consider a request to move in camera. We have before us a written submission from the shire, which we have numbered 92. Are there any alterations or additions that you want to make to this specific submission at this stage?

Councillor Smith—We would like to make some additions to that actual submission.

CHAIR—Are they additions you have in writing?

Councillor Smith—Yes, I was going to do it verbally, but I can certainly –

CHAIR—We will ask you to make an opening statement shortly, so if it is incorporated in the opening statement, it will be fine.

Councillor Smith—It is.

CHAIR—I invite you to make an opening statement, at the conclusion of which I am sure we will have some questions.

Councillor Smith—Firstly, can I apologise for the inability of our Mayor to be here today—I am standing in his stead. Secondly, may I welcome you, on behalf of our council and community, to the wonderful Boonah Shire. We have turned the weather on for you. We are sorry that you were late and have to rush through things. However, to give you a thumbnail sketch of Boonah Shire, we are situated in south-east Queensland, approximately 85 kilometres south-west of Brisbane. We are also roughly about an hour and 15 minutes from the Gold Coast and an hour and a half from Toowoomba.

The shire is predominantly rural and the major town is here at Boonah. Our population in Boonah is approximately 2,500 people. The shire services an economic catchment area of more than 8,500 residents throughout our shire. The other town of significance within Boonah is a place called Kalbar, of which there is approximately 600 residents. The services and surroundings are predominantly rural right throughout the whole shire. The main industry of the shire, of course, is primary production. In recent years we have seen a number of on farm value adding enterprises established in the shire as a result of drought and falling revenues from primary production enterprises.

The major concern, of course—what the inquiry is all about—is the closure of banking facilities, and we are no exception to any other rural area in Australia. The facilities within Boonah Shire and other rural areas in recent years have certainly led to a major decrease in

banking services in the community, which has, of course, caused a number of inherent problems. We recognise the changes brought about by modern technology and service integration. However, the committee needs to understand—and I am sure you do—that to our older residents ATMS, computers, including computers that talk on telephones et cetera are very foreign. So it creates enormous problems for the elderly, and I think we have to address that. Many of us, including our elderly, still prefer face-to-face service and assistance from all of our financial institutions. I know that this becomes difficult with costs.

In Boonah Shire, council and community groups have worked hard to ensure that residents continue to have access to local banking facilities, and they have encouraged other institutions to fill that void, as mainstream banking has vacated our shire. However, a lot of the alternative ones that come in do not provide the full service, particularly in business banking services. This is very noticeable in rural areas. In years gone by, of course, your local bank manager knew and understood your business and was an integral part of your community, whereas today we do not have that service around. A lot of it again is talking to banking outside your area.

The level of service has dropped considerably because now for business areas—whether in rural or rural related industries—you have got to go out of your shire. In our case here, to do the business banking, you have got to go to Brisbane, Ipswich or Toowoomba. There is no facility here whatsoever. The manager of the only mainstream bank as such here is a manager in name only. He has absolutely no ability to approve or otherwise a loan for business at all. You have got to go out of the shire to make those business banking arrangements. The only hope you have got is in the area of small loans—and possibly in a home loan situation.

In the area of credit and lending limits, there are quite large credit and lending limits for rural people, and it would appear that the banking industry has little or no understanding of the harm that this is causing throughout rural Australia, let alone rural Boonah Shire. There is a belief in the agricultural sector in particular that in a regional centre they do not understand the local markets as well as they understand their own. That makes it very difficult for a rural community to go in and endeavour to convince the bank that they have sound businesses that are worthy of loans. I know that droughts et cetera certainly play a big part in this with the banks, but not having that method of getting money will be the death knell of rural communities.

Considerable extra information is required of somebody in a rural area to substantiate their need for a loan—much more than is required in an urban area. This is certainly reflected in the home loans area as well as the business area. The deposit required in an urban area for a home loan is considerably less than what the bank requires for a deposit on a home loan in a rural area—likewise with a business entity: you need a far greater deposit to actually achieve your aim of getting that particular loan.

A review of the institutional arrangements and the lending policies of financial institutions is needed to ensure more flexibility and more localisation of services in rural areas. There is also a need for greater understanding, to accommodate the differences in valuations. This is an important aspect, and it was something that was reported on yesterday in a regional newspaper from Ipswich. The community there in an urban area, Ipswich, have concerns that they are paying far higher rates on their properties than people in Brisbane. They are now arguing that they would like to transfer to Brisbane City Council. In Ipswich part of this is due to the fact that there is very little land for sale—and the situation is very similar in our own area here—and so

most of your valuations are struck on the vacant land. As there is no vacant land, it is very difficult. Hence, in the overall picture of what your valuations are, they are much higher and your rates are higher. This is another inequity between city, regional and rural. So we need to get a better understanding of valuations in rural areas and of the changing circumstances of rural landholders.

The National Australia Bank was in the town of Kalbar some years ago. That bank decided that it could no longer function in that area—it was not profitable. The Kalbar community—some 600 people—was left virtually without any banking facilities whatsoever. The community got together, rallied and formed a credit union and brought in the Electricity Credit Union. Now they provide a wonderful service in Kalbar. They are filling part of the void in that particular area, but the concern is that the credit union themselves may not be terribly viable in the long term, because they do not have a great record of loan approvals and they are restricted in a number of areas as to whom and to what they can lend.

Credit unions are, as you are no doubt aware, regulated by the Australian Prudential Regulation Authority, who have stringent prudential standards by which credit unions are bound. They are restricted in the amount of commercial loans that they can make in their loan portfolio. Unfortunately, where they lend for rural properties above a certain size, they are prohibited, because those properties are then classified as commercial which, under the rules and regulations, prohibits credit unions from becoming involved. Therefore, that restriction is certainly widespread across the rural area and, hence, affects the profitability of credit unions. The majority of their lending, particularly in our region here, is for consumer purposes such as residential houses, loans and overdrafts.

Because of the loss of a number of other banks within our area, there has been a demand from businesses to have their business borrowings taken over by the credit union. In some cases, the credit union have been able to assist by taking over the mortgages on those businesspeople's homes, but they have not been able to supply that for their farms. Mortgage insurers will not cover regional areas. Therefore, they are restricted in lending to members in rural areas, as those members in rural areas must have a 20 per cent deposit, rather than the accepted five per cent deposit in our capital cities. What a rural area is is defined by postcode and, depending on what your postcode is, you may be designated as remote. This is the major reason why loans are so difficult to obtain in areas such as Boonah Shire.

It is difficult to keep business accounts. Most large modern business accounts are held, as I said before, at Ipswich, Toowoomba and Brisbane. You are encouraged to hold your accounts there, because that is where the business banking facilities are. As I said before, Kalbar has a population of some 600 people, and the Electricity Credit Union, which opened four years ago, now has some 620 savings accounts, plus investment accounts. There is \$2 million in investments. There is \$2 million in savings accounts and \$1 million in loan accounts. They have more or less exhausted their area of business in this region, because of the restrictions that were imposed.

I will give you some history. As I said, the National Bank closed in Kalbar in late 1996, and their customers were referred to Boonah. It is rather ironic that at that stage this council had its account with another bank and the agreement, we thought, which was set in concrete with the National Bank was that, if the council transferred all its business to the National Bank, they

would keep the branch open in Kalbar. It was a furphy: they closed the branch. The council's account did go to the National Bank and, I might add, it is still there.

The credit union in Kalbar opened on 8 November 1998 and, as I stated, that came about through the efforts of the community, who got together and made it happen. The Westpac Bank in Boonah closed on 31 March 2000. Westpac now have an in-store agency in Boonah, and that was opened on 3 April 2000. The Commonwealth Bank in Boonah closed on 6 October 2000. The Commonwealth Bank did it slightly differently to Westpac. They more or less tried to alienate as many of their customers as they could, to make moving out of town easier. All of us who had accounts with them were told, 'They are now in Beaudesert, and that is where you will do business. Thank you very much, goodbye.' Since then, the Commonwealth have opened a post office agency, and that was done on 9 October 2000.

At this stage, we have the National Bank—it is still here in Boonah, although for how long one does not know—and we have the Bendigo Bank, which opened on 1 September 2001. Bendigo Bank, it would appear, is certainly doing quite well in the community. So the list of banks and financial institutions currently operating in Boonah Shire is as follows: the National Bank, as I said; a Westpac in-store agency; a Commonwealth Bank post office agency at the Boonah Post Office; a Commonwealth Bank post office agency at Kalbar; Bendigo Bank at Boonah; a Suncorp Metway in-store agency in Boonah; and, of course, the Electricity Credit Union in Kalbar. The manager of the National Bank at Boonah left in September 2001 and has not been replaced. He went to the business banking centre. With no disrespect to the person at Boonah, he is a clerk who fills a chair in an office when you need it but can give you no information—he has to go to a higher authority. Straight after the manager's move, all local managerial decisions completely ceased within this community. Local farmers now go to the Beaudesert branch or to their local business branch in Brisbane or Ipswich.

From a personal point of view, with a business that I have here in the Shire—an organic fertiliser company—when we were in Brisbane, we never had any problems getting the necessary loans. We decided to decentralise and come out here into a farming area where most of our products were going to be consumed. We ran up against a brick wall when we went to the banks. For what we wanted, the banks certainly wanted more security—double the security that applied to us when we were in Brisbane—for our loans. My farm, an investment home in Brisbane, my partner's farm in Gympie, his home and our business enterprise and land here in Boonah Shire all had to go down as security. That, I must admit, has now changed, as a result of the entry of Bendigo Bank. We are still with that particular bank; we did not go over to Bendigo. But Bendigo did say to us, 'We are not interested in all your private security; your property and your factory are sufficient for us.' We went back to that bank and they did a double take and returned all our various deeds. So a certain amount of the demand for security is bluff on the part of the main banking area.

Finally, the Electricity Credit Union's trading hours are very limited. It has one or two tellers, it does not have either an ATM or a night safe. The Commonwealth Bank's opening hours are limited to whatever the post office hours are. There are one or two tellers who double up as postal staff also. There is no ATM there and no night safe. The National Bank operates on normal banking hours. It has one to four tellers and no ATM and no night safe. Bendigo Bank operates on their normal banking hours, which include Saturday, when the other mainstream banks do not operate. They have one to four tellers and an ATM, which is very well used,

particularly of a weekend when it tends to run out of money if there is a large influx of visitors into the area. It does not have a night safe. Westpac Bank has extended trading hours in the agency. There are one or two tellers, doubling as staff in there. It has no ATM and no night safe. The night safe we did have in Boonah, I might add, was here only when the Westpac Bank was officially here. That night safe, of course, has now disappeared. Suncorp Metway has extended trading hours as an agency, one to two tellers doubling in the area there and no ATM and no night safe. Basically, we have no night safe facilities at all for business around here and we have one ATM actually in town. If there are any other questions, I would be only too pleased to answer them.

CHAIRMAN—Thanks very much, Councillor Smith. Mr Flint, do you have anything to add to that?

Mr Flint—No. That was comprehensively presented.

CHAIRMAN—Let me say, before we get into detailed questions: a lot of the evidence you have given to us today reflects evidence that we have taken in other rural areas, in terms of the loss of the bank manager and the impact that has, some of the limited services that are available, the concentration of business banking in larger centres and so on. In Kalbar, I noticed you referred to the limitations on the capacity of the credit union to provide a full suite of banking services, and you highlighted the regulations that cause that.

Councillor Smith—Yes.

CHAIRMAN—One of the very positive things we have seen in the last day or so is the community banking facilities that have been opened in association with the Heritage Building Society. Can I ask why the community went down the credit union road, rather than perhaps exploring the options with Heritage, which seem able to provide a fuller suite of services?

Councillor Smith—When they looked at a number of them, the Electricity Credit Union, through a community group—what was the name of that, Ian?

Mr Flint—The Kalbar Regional Organisation for Promotion or KROP.

Councillor Smith—They were the ones that actually did it, and at that point, as I understand it, the only one that would fit the criteria, to allow KROP to actually administer and set it up, was the credit union from North Queensland—the Electricity Credit Union up there. There was, I believe, some grant money from government that created part of it, to assist them. Boonah Shire Council currently assists them: they are in our premises and they are virtually rent free at this stage, because they are just not making the profits they need.

I think at that time Heritage probably was not in the position that it is now in. We did have Ipswich and West Morton Credit Union et cetera, but they swallowed up a big one in North Queensland and Bendigo came in and took the whole thing over and became Bendigo Bank. I think that is the only reason that this one went in. There was desperation. Again, like most rural areas, as no doubt you would understand, there is no public transport here and for an elderly population—and there are a number of elderly people in Kalbar—getting to Boonah to do their banking for their pension cheques was almost prohibitive and they had to rely on family to get

them in here et cetera. So this credit union was an avenue for those people to actually carry on a normal life with banking facilities. So that is the only reason that this one was sort of the—

CHAIRMAN—I assume that the Bendigo Bank facility here in Boonah is a full Bendigo Bank operation? It is not the Bendigo Bank community bank model

Councillor Smith— It is full banking, but it also is community banking. They actually purchased the Commonwealth Bank building.

CHAIRMAN—So it is a community bank, through Bendigo?

Councillor Smith—It is a community bank, but it has full operations. We actually have a manager here who—

CHAIRMAN—Yes, I understand it has got full banking, but in some areas Bendigo Bank have opened their own branches with full banking while in other areas it is a community bank-Bendigo Bank shared operation.

Councillor Smith—This is a combination of both, so that they actually pour some money back into the community. So they have used that facility there.

Mr GRIFFIN—It was not set up as a result of the community getting together and petitioning and setting it up?

Councillor Smith—No.

Mr GRIFFIN—Westpac are quite proud of their in-store model and believe it really makes it a branch. What is your opinion of that?

Councillor Smith—I would be inclined to agree with that. In our case here, Westpac has done a wonderful job in that branch and it does give a very good service. Yes, I really do agree with that.

Mr Flint—We are still lacking a business banking service.

Councillor Smith—Yes, and that is the point that we are trying to make: there is no facility for business banking for business people in the area. As we grow—and tourism is becoming a growing part of our economy and we also have processors within the fresh fruit and vegetable area and, in my case, in the fertiliser area—to do any business banking, we have to physically go to the main branch, which in business's interest has to be either in Toowoomba, Ipswich or Brisbane itself; we cannot do business banking through an agency.

Mr GRIFFIN—How often would you go there for that purpose?

Councillor Smith—In our case, with our business, we would probably visit our business banker twice every quarter. Most of it is done by phone, and I do admit that our business banker does come out and have a look at our business and does have an understanding. But—I guess

like every other business too—you have got to keep training your business banker, because when you really get him proficient they move him on.

CHAIRMAN—In relation to your own business operation, you mentioned that when you moved out here initially they required double security. I assume there was no change to your customer base or any of that—your actual business operation was going to remain the same in terms of revenue and costs, or costs might have been cheaper by being out here.

Councillor Smith—Yes, Senator, that is correct.

CHAIRMAN—Did they explain why they were insisting on this double security?

Councillor Smith—Basically, because they claimed that we had moved into a rural area and therefore should the business go bad the chances of them recovering their money were diminished; therefore, they wanted a higher percentage out of us, which I fail to understand, because as directors of the company we are still liable anyway. It is not for me to answer; it is for me to wonder, I guess. They are the experts.

CHAIRMAN—Correct me if I am wrong, but from what you have said it seems to me that Boonah itself seems reasonably well served for banking—leaving aside the business banking issue. The problem arises in some of the towns around Boonah—Kalbar, for instance.

Councillor Smith—Yes. Our community, as such, is very well looked after in that area, with housing loans and normal overdraft situations. It was the advent of Bendigo Bank, I might add, that possibly changed the philosophy of our remaining bank: they became a little bit more receptive. But again it comes back to the fact that we need to get business. This is part of what all rural communities—and Boonah is no different to any other rural community—are about: our lifeblood is getting some form of industry to create the employment to keep our residents here and to attract more. If business finds it difficult to actually get the necessary funds to establish in your area, they move on. They will go to larger areas.

I will quote a couple of examples. The first occurred some years ago when we put a fair bit of work into Sunny Queen Eggs. Sunny Queen Eggs had to get out of Brisbane and they were fairly keen to relocate in the area. We did a fair bit of work there and there was considerable interest, but they were attracted to a regional centre to our west where they could get a whole lot more for a whole lot less. Another classic example, which fascinates our council and something that we plan to deal with in the near future, is Woolworths. Woolworths went to the same regional centre that Sunny Queen Eggs went to. They drive right through this shire here. What did they physically see that was better or that they could get more cheaply there than here? If they were here, it would involve their travelling only half the distance.

There are a number of questions. Basically I think it all comes back to where the bank is prepared to lend money to and where it is prepared to see that a future exists. This is part of what the decline of rural Australia is all about. Banks do not see small rural communities as the potential lifeblood of a community. They tend to want to go where there is security—and I can understand that—for them and their investors, and I suppose I am one of their investors to be.

CHAIRMAN—Also, in terms of attracting investment funds into the area and borrowings into the region, you mentioned the problem of higher deposits being required.

Councillor Smith—Yes.

CHAIRMAN—And you have just mentioned the issue of businesses that may have located here, but found—from your perspective, it would appear—that they were able to attract finance more easily in another location. What about farming activity, in terms of them being able to attract funds from banks—loans and so on?

Councillor Smith— I classify the agricultural world in with the rest of the business world. They are experiencing great difficulties, and the drought has not helped because banks can see that many farms may not be able to survive the drought. The farming community here is an integral part of our community. Yes, they are limited. Again, they have to have the security to accommodate their loans. Certainly, in the climate that we are in now with our weather patterns, the banks can see that there is no real guarantee of a return. That is the hard part. How long does anybody have to carry somebody? It is a difficult thing.

But, again, if we lose our farming communities, we have lost much, we really have. Where do our business houses in town go? Farming is their lifeblood, and many of our businesses in town are carrying our farmers, as well as banks. We have got to be positive. The weather is going to change and the whole thing will reverse. And I think history does repeat itself, and in the past farmers have gone through some very difficult times but have managed to come out of them and have increased the wealth. Really, although our nation does not ride on the sheep's back, it is still certainly riding on some forms of primary industry and on our mining. Those keep our country alive.

CHAIRMAN—Has the drought significantly affected land values in the area?

Councillor Smith—At this point in time, I do not really know. I do not think so because there is not a terrible lot of land for sale here. Until it really comes up—

Mr Flint—We have not had a revaluation in the shire for quite a few years now, but we are due for one. No doubt it will have an impact when that happens.

CHAIRMAN—That would not be a factor in terms of banks being less willing to lend—the values.

Mr Flint—There is a big difference between rural and urban valuations, and that comes into things. There is a higher valuation in rural areas than in urban areas when you come to collateral and things like that, so that is a problem.

Councillor Smith—That is a problem.

Senator MURRAY—I am interested in the business banking side. It seems to me you have split it between rural lending and other business, in the cities and so on. Does Bendigo Bank not pick up the other business sector—leaving aside rural lending for the moment. If you want funds as a business, will Bendigo Bank not deliver it at appropriate rates and facilities?

Councillor Smith— Senator, I would say that they possibly would but there is the factor of their newness. I guess another thing about rural communities is that many people are comfortable with the devil they know rather than the devil they do not know and there is a reluctance, unless someone really has their back against the wall, to change what they have already gone through. Most of our rural farmers and businesses have buckled at the knees and complied with the request of mainstream banking to go to Ipswich, Toowoomba or Brisbane to do their business. I suppose that with the trauma that they have got to go through—and today on the land, they are going through enough now—the added stress of refinancing and doing what they have got to do is probably rather on the distasteful side for them at this point in time.

Senator MURRAY—Heritage have told us that they lack expertise and background in rural lending, so they are doing all the consumer business and they are doing business lending but not rural lending. They seem to be very well supported, and I gather that is because they are a well-established brand in the region, and people know who they are and they feel they can trust them and rely on them. Bendigo, in that sense, has a foreign name for a start—it is not a Queensland name—and it has all the problems of a new brand. There is that sort of reluctance.

Mr Flint—One advantage it does have is that it is the only financial institution that has a local manager. That is a big plus in a local community like this. Unfortunately, as Robert was saying, traditionally it is very hard to get people to change, but as they become more aware of the services that are being provided that may well be the case for the future.

Senator MURRAY—Do they actively knock on doors or do they just sit there and wait for you to go to them?

Councillor Smith—They have not actually knocked on doors as such, but they have certainly publicised their existence. I would say, quite honestly, that when you look at the two banks there are more and more people walking into the foyer now of Bendigo Bank than into our existing bank.

Senator MURRAY—Again, because the community so badly wanted them at Crows Nest, the Heritage experience was that the support was almost set up for them when they went in; whereas what you have described to us is that Bendigo Bank has just set up shop, essentially, and that is harder—if you do not have a preset guarantee. So that community support thing, I would think, is part of the mix.

Mr Flint—They were hoping to capitalise on the anti-Commonwealth Bank feeling when they first established, and to some extent they have.

Senator MURRAY—I am interested by your remarks, Mr Smith, about the success of Westpac's in-store branch. In whose store is it? How does it work?

Councillor Smith—It is in Furniture Court, over the road. They have used the staff of Furniture Court to man the desk, and it operates to the same hours as the store does. I guess it comes back to the individuals doing it: they are very approachable and nothing is any problem to them. Again, they cannot make the big hard decisions that are needed, but for a community such as ours, with our 2,500 people in town, it is a great asset, because the elderly can get in there and

get their things done. So, yes, it is giving a service to that part of your community but not to the business side of the community.

Senator MURRAY—The community does not feel insecure because nonbanking retailers—the furniture people—know something about their private business and so on?

Councillor Smith—I think in the initial stages there was that basic fear, but I believe that they have proven that they are trustworthy, and the community itself has warmed to that fact. It is one branch that is doing extremely well.

Senator MURRAY—We are interested in a number of models because you need a flexible response to a market need, essentially. We have had correspondence with the Australian Bankers Association and the ACCC about the ability of banks to share facilities—and their competition and privacy difficulties. The ACCC's attitude is that, if people apply to them, they look at it, which in the end seems to mean that people say it is all too hard. How would councillors like you and, indeed, a businessman like you, react to the idea of a banking hall or facility where all the banks could be represented on a shared basis, if that was permitted by law or regulation?

Councillor Smith—It is a concept I have never really thought about, but maybe it is something that could be an answer for rural Australia, so long as you did have staff or personnel there that could make some decisions, rather than having to go somewhere else. If I might just digress slightly back to the Westpac agency, another reason that it performs well over there, I believe, relates to security and privacy, which you mentioned. At the Commonwealth in the post office there is no security and privacy. You are in the same queue buying a stamp as someone doing their banking; whereas the facility in the Furniture Court is in an area set aside for banking. I think that is what contributed to the popularity of that one—the people felt they did have security and they were not throwing their bank book down in full view of everybody.

Returning to your original proposition, I think there could well be some merit in something like that, so long as there was somebody within that corporate area and in your banking sphere that could make a decision and say, 'Yes, this can happen,' or 'No, it cannot happen,' rather than your having to go somewhere else and wait a number of weeks for somebody you have never laid eyes on and who really does not understand your business anyway to make a decision about it.

Mr Flint—As long as there is a personal service component.

Councillor Smith—Yes.

CHAIRMAN—I will be brief, because I know the committee is running out of time. In taking evidence from a number of different witnesses, one of the points that has been made is that customers break into two groups: you have got your profitable business—principally—customers and then you have got your transaction based elderly customers. Your evidence has been different today but more often than not most of the witnesses that have appeared before us have tended to indicate that it is those transaction based principally elderly customers that feel that they are missing the services in a lot of regional towns. The question that I pose is: if you said, 'Okay, perhaps there is a role there for government to step in and provide those transaction

based services, separate from all the business banking type services,' would that be something, Councillor Smith, that might fall within the purview of local government?

Councillor Smith—That is another good one that is another one that maybe needs to be looked at. But then we have got to be very careful about what local government is all about. I do not think it is just peculiar to us in Queensland, but more and more services are being devolved down to local government from state government. I just wonder where local government's role really is. As a personal view, I would love to see local government recognised in our Constitution as a third tier of government, but it may never happen. But within it, we have government services already now associated with local government—what was termed the Queensland Government Agent Program—such as transport licensing forms, through our QGAP office. We have got Rural Transaction Centres. These sorts of services are the things that local government is doing, over and above what is the norm of local government. As each day goes by, we find we are getting into different areas. Even in our own shire here, our council is now in the television repeater business because, strangely enough in 2001, there were considerable areas in our shire that had never ever seen what television was like in their own home, because it just did not get there. So, with the aid of the federal government I might add—with some dollars—the council is now building repeater stations.

Mr Flint—We will do anything, as long as dollars come with it.

Councillor Smith—Yes, that is true. But we are now getting calls out, to fix the repeater station because it has failed. That has never been normal local government business. So I guess my answer to your question is: it is possible but, for local government to do it, some dollars have to come with it, because the community really cannot afford to keep dipping into its pocket to try to pay for things. So we need government to subsidise these things somehow.

CHAIRMAN—The shortness of time has truncated the questioning a little bit, Councillor Smith and Mr Flint, but I suspect from the evidence and the answers you have given to our questions, your answers to some of the further questions we might have liked to have asked would have reinforced evidence that we have already taken. Certainly that is what your earlier evidence has done. From that point of view, it has been very valuable to spend time with you. I am sorry it has not been quite as long as we might have liked it to have been, but nevertheless this has made a valuable additional contribution to our inquiry and will certainly be very relevant to our findings and final recommendations, which we hope we can see implemented. Again, thank you very much for appearing before the committee and also for the hospitality you offered in helping us with lunch.

Mr Smith—Thank you, Senator, and on behalf of our council thank you for this opportunity to sit before this committee to give our position. I wish you all a safe journey back to your respective homes. Thank you very much.

CHAIRMAN—Thank you.

Committee adjourned at 1.50 p.m.