



# HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON FINANCIAL INSTITUTIONS AND  
PUBLIC ADMINISTRATION

*Regional banking services*

SYDNEY

Thursday, 19 February 1998

OFFICIAL HANSARD REPORT

CANBERRA

HOUSE OF REPRESENTATIVES  
STANDING COMMITTEE ON FINANCIAL INSTITUTIONS AND  
PUBLIC ADMINISTRATION

Members:

Mr Hawker (Chair)  
Mr Wilton (Deputy Chair)

Mr Albanese	Mr Martin
Mr Anthony	Mr Mutch
Mr Causley	Dr Nelson
Mrs Gallus	Mr Pyne
Mr Hockey	Dr Southcott
Mr Latham	Mr Willis

Matter referred to the Committee:

Alternative means of providing banking and like services in regional and remote Australia to those currently delivered through the traditional branch network.

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Present

Mr Hawker (Chair)

Mr Albanese

Mr Pyne

Mr Anthony

Dr Southcott

Mr Causley

Mr Wilton

The committee met at 9.01 a.m.

Mr Hawker took the chair.

**KANIZAY, Mr Philip Frank, National Manager, Electronic Banking Sales and Service, St George Bank Group, 4-16 Montgomery Street, Kogarah, New South Wales 2217**

**WARD, Mr Keith Andrew, Head of Retail Bank, St George Bank Group, 4-16 Montgomery Street, Kogarah, New South Wales 2217**

**CHAIR**—Welcome. The evidence that you give at the public hearing today is considered to be part of the proceedings of the parliament. Accordingly, I advise you that any attempt to mislead the committee is a very serious matter and could amount to a contempt of the parliament. The committee has received your submission, submission No. 55, and it has been authorised for publication. Are there any corrections or amendments you would like to make to your submission?

**Mr Ward**—No.

**CHAIR**—Would you like to make a brief opening statement before I invite members to pose some questions?

**Mr Ward**—Yes. At the St George we believe we are a customer focused organisation. Before taking any steps to change the services that we provide to our customers, we look at all aspects very carefully and try to communicate to our customers the best way we possibly can to inform them of the changes and why we make those changes. It is in that capacity that we are more than happy to make this presentation and be here today.

**CHAIR**—First of all, this word ‘bragencies’, do you have copyright on that?

**Mr Ward**—No.

**CHAIR**—Could you explain a bit more about it?

**Mr Ward**—It is a St George term. To give a little bit of background, ‘bragency’ is a phrase used with the St George group as it pertains to the St George banking operations. It is not a phrase that is used in relation to our agencies in South Australia which operate under the brand name ‘Bank SA’. Bragency is a term that, at the moment, is used under the St George brand name. It is meant to denote a downsized branch where perhaps not the full range of banking services are provided but, in our opinion, provides a higher level of service than one may associate with being a pure agent. It is meant to be something that is better than an agent but recognises the fact that it does not provide the full range of services of a branch.

**CHAIR**—When you say not the full range, not lending but it does take deposits and have cash?

**Mr Ward**—Yes. Basically it has transaction processing services and it can obviously operate as a referral mechanism for customers served by the ‘bragent’ to be referred through to lenders and so forth. However, they do not reside within the bragent. It does provide comprehensive transaction processing capabilities.

**CHAIR**—At what stage is it not viable to have one of these? At what level or how small does a business throughput have to become before it is not viable? Can you give us a feel?

**Mr Ward**—I can give you a broad feel. Obviously, it varies from case to case. The way we look at it is, if you think of three different levels, we may have an agency arrangement such as we envisage we could have with Australia Post, and that obviously denotes an area where we have a very small number of transactions being processed in a particular area or where we look for that agent to serve our customers who may be on holidays and so forth. So there is a clear purpose where we use those agency arrangements.

When we open a branch, quite often the expectations are not met and, if we do not reach certain volumes within certain targets, then we have to revisit that decision. Consequently, as we look at the numbers, at the transaction volumes and the deposit business that is held by that branch, quite often we believe we can serve those customers more appropriately by opening a bragent rather than closing the branch entirely. To give you very broad numbers, it is about 2,500 transactions for an agency per month whereas at the typical branch it would be closer to 10,000 per month.

**CHAIR**—Is that 2,500 for an agent, a bragency or which?

**Mr Ward**—A bragency; 2,500 transactions per month.

**CHAIR**—In a small country town, roughly what sort of population would we be talking about?

**Mr Ward**—I would say, for the bragents, 5,000 to 8,000.

**CHAIR**—People?

**Mr Ward**—For the population of that town. For the market which we are looking to serve through a bragent, the population would be of that order, I think.

**CHAIR**—But what I am getting at is that if you were the only agent or bragent in town, what numbers would you need to get that sort of throughput—what population numbers, that is?

**Mr Kanizay**—It would be 5,000 to 8,000.

**Mr Ward**—It would be 5,000 to 8,000 and our market share of that number.

**Mr ANTHONY**—You are talking about 2,500 transactions per month, though, are you?

**Mr Kanizay**—Yes, we are. Bragencies are not designed really for the very low volume country centres. Bank SA has probably exploited that far greater than any other bank in Australia, in the sense that we went out to 187 very small country centres, some that have got four houses in the town, with a device that is a very low cost terminal—we are talking about something in the order of \$2,000—that allows you to do very basic banking transactions. You can do your deposits and withdrawals on it; you can deposit cheques as well as cash; you can take out a balance inquiry on your account, so long as it is linked to a piece of

plastic; and you can also order a statement through that device. That is designed for the very low end of transaction volumes.

**CHAIR**—Can you just flesh that out a bit more?

**Mr Kanizay**—Okay. In 1992 we had a whole heap of manual agencies and these places were costing us a lot. There was a lot of distance to travel and for the agents to remit their value they had to do it daily. They also had a lot of paperwork that they needed to do. As a result of that, we decided to look at something that was electronic—something that would allow far cheaper processing to be done and far quicker updating of accounts—and introduced the concept of electronic agencies. In order to make it more attractive, we added EFTPOS functionality to that same terminal. The biggest cost we have got, in terms of going out into rural centres, is communications. We go up by almost 60 per cent going into rural areas where the cost of 1800 numbers, compared with what you are paying in metro areas—

**Mr CAUSLEY**—This is via the equipment?

**Mr Kanizay**—This is via the equipment, yes. As a result of that, the EFTPOS device was fairly expensive to go out into rural centres. So we added EFTPOS to that terminal with the knowledge that, if we made nothing out of EFTPOS and just covered our communication cost, we could supply them with an added service alongside the agency. The agency terminal then would do their basic banking transactions. We also had sales referral sheets that they could fill out as part of that process. There was a structure in place for them to be able to receive commission whereby, if they gave a lead to us re a product that a customer made inquiries about, we would follow it up through our network of on-line lenders or through telebanking. These people would then either visit the customer to discuss a loan product or a product that they were after that the agency did not service or they would be contacted by telebanking which would follow up any leads that were sent through. From that, if the sale did go through the agency would also receive commission from that transaction.

**CHAIR**—What size town are we talking about where these agencies are?

**Mr Kanizay**—We are talking populations of less than 50 to populations of upwards of, perhaps, 5,000 to 6,000.

**Mr ANTHONY**—You said you can actually receive cash with this equipment?

**Mr Kanizay**—Yes. The agency has a cash float. The real benefit of this is that agencies in the past have been very restrictive in that you had to have ID and you had to be known in the town to be able to use those services. If you were a tourist and you had to go out to a location, you could not normally do transactions at those sites because they could not identify you. So we introduced a card based concept whereby a PIN number was your signature. It was very secure. As a tourist, I could travel to a remote country town. That is why we can put them into places like Lyndhurst in South Australia. It is a very small town; one of the smallest, I think, in which we have an agency. That place is a major tourist route on the way to Lake Eyre. As a result of that, it was worth while us putting an agency into that location. We get a number of tourists that go through, in addition to servicing the population that lives in that town and services

that town.

**Mr ANTHONY**—What do you do with cash? Say I am a farmer and I come into your agency. I am not a bank. How does that agency handle that type of cash? Obviously it is a limited amount of cash they handle. They have to put it somewhere, don't they? Where do they put it? In the drawer underneath the counter?

**Mr Kanizay**—No. They have a small safe or they have a cash tin. Normally it is a small safe. So there is a level of security there. They then would remit once every two or three days, depending on their distance to the branch.

**CHAIR**—What about the small business? Can they deal through this agency?

**Mr Kanizay**—Yes, they can. The biggest issue we've got is cash deposits. Normally the benefit is that if they do take cash through their EFTPOS network they can also pump out cash to other bank customers. So it is not restrictive to just Bank SA customers that are using that device. So as a result of that they tend to be able to manage their cash flow reasonably comfortably.

**Mr ANTHONY**—We had plenty of evidence yesterday and it would seem that Australia Post was best positioned to help service a lot of these communities because they have the post office there. But you have to have basically over 10,000 or 11,000 transactions before you get on-line, so you can pay your utilities, you can put in cash and all that sort of stuff. Correct me if I am wrong, but what you are saying is that you are providing an equivalent service for about two grand. Is that correct?

**Mr Kanizay**—For \$2,000 capital cost, yes.

**Mr ANTHONY**—What is the ongoing cost?

**Mr Kanizay**—The ongoing cost is communications cost. So there would be another 20c-odd per transaction.

**Mr ANTHONY**—And you are obviously familiar with Australia Post.

**Mr Kanizay**—Yes.

**Mr ANTHONY**—Is it comparable?

**Mr Kanizay**—It is comparable in the sense that you can go in there and deposit funds and withdraw funds. But it is designed specifically to service our customers in terms of there are some very large rural customers who need to have banking support. The risk we have is that if there is a branch out there from another bank and we close or reduce our hours, our customers are going to move across to that branch. So as a result of that, our intention is to try and retain those customers by providing them with additional banking services.



With us going into an agency we normally extend the trading hours of our branch because the agency that we go into may be the local supermarket that may be open seven days a week and will have longer hours than a normal bank branch. The ANZ across the road, for example, may be trading from 10 o'clock to 2 o'clock and our agency is open from, say, 8 a.m. to 7 p.m., or whatever their hours are. If it is the local service station it could be open 24 hours a day.

**CHAIR**—So if the agency was the only banking facility in town, what is the feasibility of you also extending that agency to take on a franchise for another bank? Is it feasible or not?

**Mr Kanizay**—Not for us, no. The reason why we are setting ourselves up in those towns is to try and attract other bank customers to become our bank customers in order to be able to take their accounts and make our margins greater.

**Mr CAUSLEY**—What about for lending, for instance, if there were business or farming communities who were looking for larger loans? Do you have a specialised person who can visit those communities and deal with that?

**Mr Kanizay**—We have commercial banking centres that have mobile lenders that travel through the country. So as a result of a lead or a sales referral that comes in we can then visit that person or use telebanking to take some of the details and do most of the loan application there and, if a visit is necessary, then send a person out to finalise the loan details. So it is available.

**Dr SOUTHCOTT**—How much part-time banking do you have at the branches?

**Mr Kanizay**—Part-time being reduced hours?

**Dr SOUTHCOTT**—Open one day or two days a week.

**Mr Kanizay**—It is limited. It tends to be open daily, but it may be opened for only two or three hours in some cases. I have probably not got the best way of explaining this because our network is far greater than Advance's and St George's are in rural centres. We have tried to manage the hours so that they do have daily banking available. However, it is reduced. For example, they may close over a lunch hour. There may only be two people in the branch. Because of union issues we need to have two people at least in a branch in case something does happen. We may then close for an hour or an hour and a half during the middle of the day so that these people can have lunch. If that is not viable then we would look at putting an agency in place in that town.

**Dr SOUTHCOTT**—So when you think about closing a bank you never consider just going to part-time, just having one day a week or something like that?

**Mr Kanizay**—We used to. However, the service was not considered to be satisfactory. We are better off putting an agency into that place and giving seven-day trading if we can or five-day trading if it is all that is available, rather than putting a one-day branch in.

**Dr SOUTHCOTT**—Would that be through giroPost?

**Mr Kanizay**—No, that would be through our own device.

**Dr SOUTHCOTT**—Who would operate the agency?

**Mr Kanizay**—It would be a local shop. We try and steer away from premises that are not highly attractive in the terms of hotels because it does restrict your patronage. We tend to try and target sites that have fairly extensive hours and also have a fairly reasonable profile in the community. A supermarket, the local deli, the local general store, the local service station, would be the ones that we would normally target. It could also be the local real estate agent.

**Mr CAUSLEY**—Have you considered expanding that across, say, New South Wales?

**Mr Kanizay**—We have put a pilot into New South Wales and that is currently being evaluated. The one difficulty in New South Wales is that we do not have an extensive rural network. For us to go out into New South Wales, we would need to build up market share in other regional centres.

**CHAIR**—Do you have plans to do that? You do not have to answer that.

**Mr Ward**—Not at this stage. The history of both Advance Bank and St George obviously is that they came from building societies—mortgage lenders—and the diversification has been such that we have moved into business banking and so forth, but we also recognise that you cannot move into areas of business where you do not necessarily have the expertise. As Mr Kanizay indicated, we are looking at broadening some of our product lines into New South Wales, and also Victoria, but we are doing it a very gradual way.

**Mr ANTHONY**—The electronic agency is a real success where you have been: through Bank SA through rural South Australia. You have mentioned in your submission that you had a 17 per cent increase in the electronic agency—transactions, I assume—so what is the feeling now in South Australia and rural communities? Do they feel as though they are getting value for money? The evidence that we have had, particularly from New South Wales, is that banks are closing down and there are real problems, yet I am getting the feeling that these problems are not of the same degree in South Australia.

**Mr Kanizay**—The feedback we get is that, when we close a branch, the biggest impact is that we normally take away the resources that are operating in that branch. The local branch manager or some of the people who worked in that branch have to leave that town and move to other locations. The issue there is that one person who used to be the treasurer of the football club or the treasurer of the school had other such job roles in that town, so you then needed to buy resources in to fulfil the same role in some cases. They end up losing a resource that is of value to that community, even though they still maintain their banking activities to a reasonable degree in terms of daily banking. That is, perhaps, the biggest concern that a lot of these communities have: that we are reducing the number of specialist people that they have in their communities who they can rely on to do other activities there.

**Mr Ward**—That has also been the case in certain instances in New South Wales where we have

changed a branch to an agency. The reaction has been more over the fact of what we are doing to the town rather than focusing on the reduction in banking services necessarily.

**CHAIR**—One of the things that I would like to explore is your ATMs. I understand that you have gone a step further; you not only receive cash into them but also cheques. Is that right?

**Mr Ward**—Yes, in the Australian Capital Territory we have run a pilot where you can actually deposit cheques.

**CHAIR**—Has that been successful?

**Mr Ward**—Yes.

**CHAIR**—The other question, obviously, that comes up is: what is the break-even point in terms of a profitable customer? There is a lot of talk about people on social security and so on not being the most profitable sort of customers. What is the break-even point?

**Mr Ward**—As indicated in my submission, both organisations had fairly good MIS that were able to give us precise information, so I apologise if the data I have is not as precise as I would normally like. However, with a cheque account customer it can be \$1,500 to \$2,000, but it very much depends upon the behaviour of the customer in the number of transactions that they perform and so forth.

**CHAIR**—Does the \$1,500 to \$2,000 mean turnover during a year?

**Mr Ward**—No, that is an average balance.

**CHAIR**—If a customer could keep a balance of around that amount, then you would not have to charge them a lot of fees? Is that the case?

**Mr Ward**—That is including the current fees that we charge them.

**CHAIR**—Your fees are on par with other banks?

**Mr Ward**—I imagine so. Yes. I think we are bringing our fees into line but they are comparable.

**CHAIR**—One concern that has been raised with me about these agencies is that it can cost people who have to withdraw through a post office \$1.50 per transaction. What is the cost through your agencies?

**Mr Ward**—We have reflected on that as well, and obviously these things are always subject to change. At the present time, we do look to recoup that, but we do provide each customer with a minimum number of free transactions per month. So, provided it is within that minimum fee-free threshold—

**CHAIR**—Which is of the order of?

**Mr Ward**—They are coming into line. Currently it is five for Advance Bank and eight for St George. But we are moving to eight.

**CHAIR**—So eight withdrawals?

**Mr Ward**—Eight free transactions per month. So it is within that.

**CHAIR**—You talk about the use of Internet and its limitations. I was wondering whether you could expand on that a bit.

**Mr Ward**—Yes. Within the group, both Advance Bank and Bank SA have Internet banking capabilities. Just to give the committee some idea of what you can do via the Internet banking capability: you can transfer funds from your cheque account to pay your visa or your mortgage; you can call up records of transactions performed enabling you to do a verification of statements, and so forth; you can use the new Bpay scheme to make payments to various utilities, and so forth. So it is quite a wide range of functionality.

When we launched it, one of the objectives we saw was that it would enhance the services that we provided, particularly in rural areas in South Australia, through the Bank SA part of the group. It has had some success; I think we would hope that it could have had even more success. But we think it is a particularly attractive service. It is one of those things that, once you start using it, I think you do see the benefits of it.

However, we have recognised that it does have some limitations. There is the way that you download what is called the I-Bank, or the Internet bank file, to your own PC. When we have looked at the way some of our people can download it, we have found that it is not as easy as we would like. So we are reviewing the processes and the procedures for that to make it perhaps easier for people to use.

At the present time we are also looking at, and working through, some other strategies to encourage people who have PCs to buy modems. However, there are also some other restrictions, such as the fact that it is obviously cheaper to use the Internet in metropolitan areas than rural areas, given communication costs.

**CHAIR**—Can you give us some idea of these costs—what a modem is going to cost, and what the differential is between someone in a metropolitan area and someone in a rural area?

**Mr Ward**—I am probably not familiar with the cost of modems, but—

**Mr Kanizay**—You can get a modem for \$100—

**Mr Ward**—But with the Internet, rather than having people on it just using it as ‘a luxury item’ for browsing and entertainment, we have tried to get people to use it for a purpose—so that there is a reason to use it and not just, as I said, for entertainment. So I do not think it is the cost as much as people encouraging people and letting them know that this service exists if they are prepared to get onto the Internet. The second issue is one of communication costs, and it is the cost of telephone calls.

**Mr Kanizay**—It is also ISP providers in rural centres who do not have Internet service providers located everywhere. For a rural user to hook up to the Internet, they either have to go to the largest regional town that is in their area—and that could be 300 kilometres away, so they are paying STD rates—or they have to log into Adelaide. So, from that, they have a fairly expensive cost to make that call into that Internet service provider. Some people do it because they see the benefits of Internet banking being worth the cost when compared with driving to the branch, which may be 100 kilometres a way.

**Mr PYNE**—Has Bank SA closed many of its branches in rural South Australia?

**Mr Ward**—Yes, it is fair to say that they have closed a number of their branches. But one of the points we made earlier was that, whilst it has been closing its branches—and Phil is more capable than I am of answering this—I do not think there has been any instance of it actually withdrawing from the place.

**Mr Kanizay**—No.

**Mr Ward**—So it may change the way that the banking services are provided through agencies and the like or different levels of service, but it has not actually withdrawn from any location.

**Mr PYNE**—Do you have much evidence of credit unions moving into areas where you have closed your branches?

**Mr Kanizay**—In South Australia?

**Mr Ward**—No.

**Mr Kanizay**—No.

**Mr PYNE**—What about the rest, say, New South Wales and—

**Mr Ward**—In New South Wales, given the history of both Advance and St George, we are not really in those types of rural locations. So there are not many instances where we would be the only bank in town.

**Mr PYNE**—Credit unions are moving into areas where other branches are closing or have closed down their operations. Speaking as bankers, why do you think it would be viable for some credit unions to open branches in towns where other banks have decided it was not profitable to continue?

**Mr Ward**—From our point of view, that has not been something that has been a case for us. In South Australia we have addressed that issue by putting in agency facilities, and it has not been an issue for us.

**Mr PYNE**—I understand your specific situation. But just taking yourselves outside St George and your own group, why do you as bankers think it would be profitable for credit unions to open branches in towns where other banks had decided it was not profitable?

**Mr Ward**—I think it would have to come down to perhaps shareholder requirements, different profit

requirements. If you have shareholders you need to serve, some indication perhaps is different regulatory impacts; there are a couple of those things.

But I think the main thing comes down to the fact that, within the banking industry at the moment, there is obviously a great deal of change going on and the competitive forces are coming from a number of different places. That is causing banks to reflect on every part of their operation to say, 'How can we compete?'—particularly against some of the new competitors who are only competing across, if you like, the more lucrative parts of the business. So, to the extent that you are not efficient in perhaps the provision of transaction banking services, it reduces your ability to compete in the other parts of the business.

**Mr PYNE**—Would it be true to say that, when, for example, a Westpac closes down in a small country town and a credit union might open up there a year or so later, a lot of the people who had previously been with Westpac would open up accounts with the credit union?

**Mr Ward**—I have no knowledge of that. I am not trying to avoid the question. But within New South Wales it is something that we have not focused on, given where we are.

**CHAIR**—Do you feel that the banks should accept some responsibility for ensuring that a service is provided until alternatives can be found?

**Mr Kanizay**—In my case, my answer would be yes. We have done that in the sense that, if we have moved out of a town with a service, we have provided a differential service to them that would give them still some access to transactions. In some cases, branches have closed down completely and, as a result of that, another bank in that centre has become viable. If an ANZ closes in a two-branch town and the remaining bank takes over most of those customers, then those customers suddenly make that other bank viable. In some cases, we have been looking at closing down a branch with the knowledge that on the other side of the street the branch is also looking at being closed down.

**CHAIR**—Do you feel that you can consult with that other bank before you close?

**Mr Kanizay**—We have in the past.

**CHAIR**—Because there have been examples in recent times where two banks have closed within a week of each other in a town and suddenly there is nothing there.

**Mr Kanizay**—Yes. That happens because it is unknown that that is happening. It tends to be a secret. We send out letters to our customers advising them that that is about to happen. It is a fairly emotional time when that does happen. So in most cases what we do is give them an alternative and say—

**CHAIR**—How much warning would you give your customers?

**Mr Kanizay**—One month.

**CHAIR**—Is that because you do not want the backlash to build up?

**Mr Kanizay**—The more time you give them, the more people get together in groups and protest the fact that that is about to happen. That is being very honest, but—

**CHAIR**—We appreciate your frankness. In fact, we appreciate your appearance here because you are the first bank that has offered to put in a submission and appear before the committee.

I suppose this is the other question that follows from that: in your experience, if you were threatening to close the last branch in town, albeit you may put in an agency, can you see occasions where the local community would rally around and move more business back into that branch to make it viable again? Can you demonstrate that that could occur?

**Mr Kanizay**—We have had discussions where our chief manager rural has gone out to centres and attended protests where the branch has either reduced its hours or closed down, and that is the issue he has come up with. He has cited examples of people in that town who have gone to other organisations or other financial institutions to seek funding for their products. It is as a result of that or for that reason that this branch needs to reduce its hours. When he has brought this to the attention of the people in the town, it becomes fairly obvious to them that, unless they support that financial institution, it is very hard for them to justify.

Also, with the squeeze on rates being so tight and everyone shopping for the best product in terms of price, in some cases it is very hard for us to compete in those areas if we have infrastructure there that needs to have a rate of return to make it viable. In that case, there are cheaper products available in the market. However, if you go and seek those cheaper products and do not support the local branch, it is very difficult to keep that premises open.

**CHAIR**—My question was this: when you have raised that, have you had a response that makes it worth keeping that branch open?

**Mr Kanizay**—No, people still shop for the best value for money product.

**Dr SOUTHCOTT**—You mentioned in your submission that you want to upgrade telephone banking so that it is accessible via a '13' number. Isn't it already the case in Bank SA that people anywhere in South Australia can do their telephone banking through a '13' number?

**Mr Kanizay**—It has just been opened up now. It was restricted to metropolitan users only. Actually, it is about to be opened up. We are talking of that happening within weeks now. In the past, if you were in a rural area, you would not have been able to dial the '13' number and get access into metro telephone banking.

**Dr SOUTHCOTT**—You mentioned that when Bank SA have had closures they have always maintained a presence. With the closures that St George has had in rural New South Wales, have you maintained a presence there?

**Mr Ward**—Yes, in the main. I have been with St George for only a limited period of time and, in my

experience, I cannot think of any country branches that we have closed where we have left the town without a presence. The activity, in the main, has been to convert them to bragencies. As I said, there may be one or two examples of which I am not aware—I cannot recall—but that is the normal procedure.

**Dr SOUTHCOTT**—Advance Bank offers banking through Australia Post, but St George does not yet. When do you anticipate that occurring?

**Mr Ward**—That is a function not of policy but of systems integration. Discussions have been held with Australia Post to indicate St George's willingness to join the scheme. However, right now, with the merging of the three banks, including Bank SA, we are putting all the group onto the one system. It is making sure that we get the core systems integrated before we start introducing these new services.

**Dr SOUTHCOTT**—Why does it cost \$1.50 for each transaction with giroPost?

**Mr Ward**—We pass on the cost to us. But, as I indicated earlier, in effect we are actually subsidising some of that cost because it depends where that transaction sits and the fee-free threshold. Customers on various accounts get a certain number of free transactions a month. If it fits into that, then it can be free.

**Mr Kanizay**—That is our charge from Australia Post.

**Dr SOUTHCOTT**—Australia Post charges you \$1.50 for each transaction through giroPost?

**Mr Kanizay**—Yes. If a customer went to Australia Post eight times that month—it could be five—they would be charged nothing for those transactions until they exceed that. After that they then cover the charge of that.

**Dr SOUTHCOTT**—Let me get this right: whether it is five or eight transactions, you absorb it for that five to eight, then after that they start paying for each additional one?

**Mr Kanizay**—Correct.

**Mr Ward**—You can see that even that provides us with a cost dilemma: it is still not acceptable to a lot of our customers. We are trying to pass costs on, not necessarily take revenue from it, but at the same time provide the service. We still have issues in terms of customers accepting the charges that we face.

**Mr CAUSLEY**—We have had quite a lot of evidence before the committee about infrastructure and the limitations that that imposes. It would seem to me that the isolated areas that you are talking about in South Australia would not have fibre optic cable. Have you struck the problems of servicing these kinds of areas?

**Mr Kanizay**—We have had coms problems even with dial-up services whereby the exchange lines are so weak in terms of signal that we have needed to modify software so that the actual terminal screens down the service so that it can actually be picked up at the other end. We have had issues where the dial tone is so quiet at some of these sites that the terminal will not recognise that it is actually having a dial tone there, and



it will come up with 'no line available' on the device.

We have had to make some extensive modifications in those centres. Telstra gradually upgraded a lot of the old exchanges, even in South Australia. When we went in in 1992, a lot of those services became capable of having terminals that are the normal, standard terminal that meets the requirements of Telstra rather than the requirements that we have had to give it in terms of being able to communicate on that telephone service.

**CHAIR**—What proportion of South Australia is covered with an adequate service?

**Mr Kanizay**—We have 187 rural agencies out there.

**CHAIR**—And they are all okay?

**Mr Kanizay**—They are all working fine. Wherever you can put a PSTN, a public switch telephone network, telephone line we can put an agency. That is the normal telephone service that you would have connected to your home.

**CHAIR**—With Australia Post the use of giroPost is personal, not business. How hard would it be for it to be extended?

**Mr Kanizay**—To become business?

**CHAIR**—To include small business?

**Mr Kanizay**—The biggest impact they have is handling the deposits and the cash that would come over the counter. That is why for \$1.50 it is worth their while to take those transactions. Our agencies are different in the sense that one of our selling options to them is that having an agency will bring customers to their front door. If there are two delis in the town and you have the agency, anyone who wants to do banking transactions is going to walk into your shop. Potentially, they have cash in their hand or want to withdraw cash and they are likely to make some purchases there. It is worth your while having an agency. On top of that we pay them a retainer and commissioner for the transactions.

**CHAIR**—Surely Australia Post would get the same benefits, would it not?

**Mr Kanizay**—It depends. The product range they have may not be conducive to what people want to purchase. What they would normally find is a person walking in there to use giroPost would normally walk in there, use giroPost and walk out again. There is unlikely to be another transaction that would require stamps or something else from them.

**CHAIR**—I want to clarify this. Does your agency do everything that giroPost does?

**Mr Kanizay**—I would say yes. I think it probably does more. It produces statements as well as provides balance inquiries.

**CHAIR**—So for \$2,000 of hardware plus the operating costs you could put in a terminal anywhere and it would do all of those things?

**Mr ANTHONY**—Can you also pay utilities?

**Mr Kanizay**—No, you cannot. We actually looked at that when we developed the project. We looked at being able to select other buttons that would allow you to press a key and make a payment to that utility. The case of remitting that value and the process of that doing that became fairly complicated so we decided to steer away from it. It is a function that could be done, yes.

**Mr Ward**—The other issue there is that we are looking to expand the use of the IVR and the Internet to make those kinds of services available to our customers.

**Mr Kanizay**—The banks have actually found a utility payments method which is called bill pay that has now been launched. All the major utilities are on that currently. There is an opening for just about any biller. For example, a landlord may want to become a bill pay customer where their tenants can actually make payments via bill pay to pay their rental payments.

**CHAIR**—Are the bill pays always at a local call cost?

**Mr Kanizay**—Bill pay runs through IVR of the banks. So whatever it costs to make a call to the IVR of that bank is what they will be paying. In most cases, it will be a local call cost.

**Mr ALBANESE**—Do you have any examples of where in regional South Australia you have shifted from having a branch to providing another form of banking service and where perhaps other banks in that same location have shut down and moved out of town altogether; do you have any examples of that? Do those customers then go to Bank SA because Bank SA is providing a service? I guess that is what I am looking towards.

**Mr Kanizay**—If we have put an agency in place of a branch and then a branch from another bank still remains?

**Mr ALBANESE**—Yes.

**Mr Kanizay**—In most cases the reverse happens. The reason for that is that customers are uncomfortable going out to a retailer in the area who could be their friend or a colleague or a competitor and taking their takings and banking them or doing withdrawals there because of privacy.

**Mr ALBANESE**—So they tend to go to another bank branch?

**Mr Kanizay**—The customer consumer base is perhaps not that concerned; the business base tends to be, yes.

**Mr ALBANESE**—How about the reverse case? There are certainly a number of towns in New South

Wales with which I am more familiar where a number of banks have removed themselves from towns. Is there any example of where you have gained increased business by the decision to not just simply withdraw from the town but to move to the provision of banking services in other forms?

**Mr Kanizay**—It would happen on every occasion. If you have remained in a town and another bank has closed, a lot of the customers from the other bank will move across to you.

**Mr ALBANESE**—Even if it is a non-bank branch service? Even if it is in the form—

**Mr Kanizay**—Of an agency?

**Mr ALBANESE**—Yes.

**Mr Kanizay**—Yes. It will happen. If you are the only banking facility in the town, you will get more customers, yes. It has always happened.

**Mr ANTHONY**—What plans does the bank have in the future with new technology coming on, such as low orbiting satellites and the ability to be able to do digital transfers in some very remote communities? Predicated on the costs, of course, there will hopefully be fairly good communication coverage. I do not want commercial-in-confidence information of course, but are there strategies the bank is developing and where do you see telecommunications to remote areas through your agencies? Will it be enhanced, and will it provide, say, an edge for your organisation relative to other banks?

**Mr Kanizay**—Communications are perhaps our biggest issue in terms of cost and distribution. If we use a dedicated line, for instance, I can pay \$3,600 to get a dedicated line anywhere in the metropolitan area and pump as many transactions through it as I like for that one cost per year. If I go into a rural centre, it will cost me upwards of \$8,000. The benefit I have in the metro areas is that I have 200,000 or 300,000 customers who may use that. In a rural area, I may only have 500 or 5,000 customers, so it becomes fairly expensive for us to provide that sort of com service to them. Again, we can use dial up services for that which makes it far cheaper, but the cost of the dial up services going into a rural area becomes up to five times more expensive than in a metro area. If a communications service comes out that makes it far cheaper, then it becomes viable for us to go out there with other banking services and quicker banking services.

**CHAIR**—Do you want to expand on that point? If you had the same costs in the metro as you did to go into the rural areas, how much would it alter your ability to service these communities?

**Mr Kanizay**—It would give us the same opportunity that we have in the metro areas.

**CHAIR**—Which is?

**Mr Kanizay**—Which is just about anyone becomes viable. To a degree, everyone is viable for us at the moment using PSTN telephone services because they are based on paying perhaps 20c per transaction in terms of com costs. The other expense that we do have is servicing those devices. So if a terminal breaks down 900 kilometres from Adelaide, you have the issue of having to get someone up there—and normally

that is not what happens; a courier would bring that terminal back to us and deliver a new device to them, but you have a banking system that is out of action for a period—or you do it manually, whereby vouchers are filled out to allow that transaction to go through.

**CHAIR**—How often would the breakdowns occur?

**Mr Kanizay**—It really varies. We normally budget on one terminal breaking down once per year.

**CHAIR**—One per year?

**Mr Kanizay**—One device would break down in a town once per year. So it is not frequent, but you would be guaranteed 100 per cent failure rate because of the environment they operate in. It is fairly dusty. It is hot in most cases. They are used fairly extensively, and you have things like paper, dust and other issues that develop with that device and they do fail.

**Mr CAUSLEY**—What you are saying is that you suspect initially, anyway, that satellite technology will be too expensive?

**Mr Kanizay**—I would say so, yes.

**CHAIR**—Coming back to the question of closing a branch or downgrading a bragency to an agency, what sort of consultation do you go through with the local community and what sort of research do you do before you make that decision?

**Mr Ward**—The types of things we look into are the transaction levels to see whether or not the bragency is a viable option. We look at the balances held by the branch in a particular locality. We look at any ancillary business we get from that branch. If we downsized the branch to a bragency, quite often we can expect that we will lose that business, so we look at all those aspects.

The other thing we look at from our perspective—this is more broadly based—is customer behaviour. This may not happen in certain rural towns, but more in metropolitan Sydney. We would look at the customers who frequent that branch to see whether, for instance, that is the only branch they use in the network or whether it is one of three or four branches they typically use. We try to map the customer behaviour as much as we can in order to see what impact the closure of the branch will have on our customers and, through our customers, on our retention of business. So we factor that into a model and then it is evaluated using those criteria.

In terms of consultation with the community, as a guide, the consultation process is one where, once we have made that decision, it only comes then to selecting a bragency site. It is not one where we call a community meeting or customer meeting and say, ‘This is what we’re doing. Do you have any suggestions?’

**CHAIR**—You do not want to get beaten around the ears.

**Mr Kanizay**—No. Also you look at the transaction set, whether an agency is going to be able to

service the sorts of transactions that are currently going through that branch. If they are mainly withdrawals or low value deposits, an agency will take care of that without any issue. If there are high value deposits or a lot of loan activity that goes through that branch, perhaps you need to look at other options.

**CHAIR**—What about in terms of consultation with local government to the point of saying, ‘There is something we can work together with that might make this more viable’?

**Mr Kanizay**—A lot of that comes from their contacting us in terms of providing extended banking hours. If we have reduced hours in an agency and a branch, a lot of them will come along and say, ‘Can we have an ATM in this town because of these issues?’ It is again fairly expensive for us to do that because of the costs involved in communications and servicing costs to supply that device. You have got the cash supply costs: the likes of Armaguard are charging substantially more to go out to a rural centre to deliver that cash. It really does come down to the cost of services going out further into those centres and then a reduction of people using those services as compared with a metropolitan site.

**CHAIR**—What sort of population would you need to make an ATM viable?

**Mr Kanizay**—Six thousand customers.

**CHAIR**—I suppose the other question is whether you have explored at all alternative businesses that might be able to share bank premises.

**Mr Ward**—In the main that is along the lines of an agent, where it is a local business that we are looking to enhance their income flow as well so that it makes that local business more viable by giving them another business stream. Yes, we are looking for those sorts of alliances.

**CHAIR**—As there are no further questions, thank you very much for your submission and thank you for coming. I think this has been a very valuable contribution to the committee’s work and I am sure it will assist us in continuing this inquiry. Again, thank you very much. If we have any further questions, could we write to you?

**Mr Kanizay**—Yes. No problem.

**CHAIR**—Before calling the next witnesses, there are two submissions I would like to have received as evidence in the inquiry and authorised for publication. The first one is from the Solicitors Mortgage Investment Companies, No. 86. The second one is from the New South Wales government. There being no objection, it is so ordered.

[9.49 a.m.]

**AITKEN, Ms Jan, Department of Fair Trading, New South Wales Government, PO Box Q168, QVB, Sydney, New South Wales 2000**

**DRAKE, Mr Robert, Manager, Research and Equity Branch, Department of Fair Trading, New South Wales Government, PO Box Q168, QVB, Sydney, New South Wales 2000**

**CHAIR**—Welcome. I remind you that the evidence you give at the public hearing today is considered to be part of the proceedings of the parliament and accordingly I advise you that any attempt to mislead the committee is a very serious matter and could amount to a contempt of the parliament.

The committee has just received your submission. Would you like to make a brief opening statement before we pose some questions?

**Mr Drake**—Thank you, Mr Chairman. The submission that we have tabled today—and I apologise for its lateness—has four attachments to it, some of which I think have been circulated to the committee, which provide fairly extensive information on regional banking issues. There is a report of the regional banking forums which were held last year; an action kit to help communities deal with bank issues in the bush; a report of a banking hotline held by the New South Wales Council of Social Services which we funded; and a research report from the University of Southern Queensland on the social and economic impact of the last bank branch closing in a rural town.

The New South Wales government is keen to ensure that consumers and businesses in New South Wales have access to essential banking services which meet their needs and are at a price that they can afford and that where changes occur in the banking system that transition occurs easily. However, the New South Wales government does not regulate banks, so a lot of the issues that we are dealing with fall more in the Commonwealth sphere than in the state sphere.

I would like to outline the concerns which the community has raised about regional banking issues. I would like to talk about some of the work that the New South Wales government has done on this issue over the past year and then talk about some of the recommendations that we have made. The way banks provide their services in regional areas has changed quite radically in the past five years. There has been a considerable move away from providing services through a bricks and mortar branch, with a lot more emphasis on providing services through electronic means, through mobile managers doing lending and through services provided through retailers, with things like EFTPOS and ATMs.

In New South Wales our research shows that, in the past three years, 106 communities have been affected by bank branch closures in the non-metropolitan areas, 124 branches have closed and 36 localities have been left with no branch at all. Some of them are very small communities but some of them are quite significant communities—places like Delegate on the Southern Tablelands, Wentworth in the south-west and Werris Creek. These are significant rural towns with quite large catchment areas. The trend that has been suggested to us is that the banks are moving towards a model of one branch per 2,000 people. There are many parts of New South Wales where a catchment area of 2,000 people can be a couple of hundred

kilometres across, so the trend is very significant for regional New South Wales and regional Australia.

The concerns that the community has raised with us include branch closures, which means either inconvenience in having to travel a long way to go to a bank branch, and added travel costs. There are a lot of people who now have to travel a 50 or 100 kilometre round trip to do their banking that involves face to face banking. This is particularly hard on people without cars, such as older people, people who have to look after kids during the day who have to drag their kids along and people who work in small country towns because the hours they work are the same hours that the bank is open. How do you go to the bank during working hours?

Apart from retail customers, the branch closures have a particular impact on small business. If people have to go to a larger regional town to do their banking, they tend to do their shopping there as well and their other purchases of services. The fact that the bank has moved means that a lot of the retail turnover moves as well. That reduces the local economy.

The branch closures also impact particularly on small business as their banking needs—getting payrolls, depositing large amounts of cash and getting a float for the day's business—often cannot be dealt with through agency arrangements or electronic banking. They are in a particularly difficult situation; they need a bank branch for many of their transactions, nothing else will do.

The second broad thing that has been raised with us is problems with electronic banking. For some people, electronic banking is great. Being able to check your bank balance over the phone and having people hooked into the Internet is great. But older people, particularly, have not grown up with it; they do not like it; they do not want it. They may have vision problems, so they cannot see the screen on an ATM; or they may have problems with the manipulation of their hands, so they do not feel comfortable pressing buttons. They cannot remember their PIN number or they are scared of being robbed at ATMs. Many older people are very reluctant to use electronic banking. In the absence of a bank branch, it leaves them completely stuck.

The third major issue that has been raised with us in regional areas is a question of transition. Even if there has to be a change in the banking system, the transition is very rough and rocky for many people. Older people who want to use it are not getting training or education in electronic banking. A particular problem is banks closing at very short notice in rural towns—and I would like to discuss that a bit more later on if you have some questions on it. Banks giving three or four weeks notice of a branch closure is very common, and this seems to be a deliberate tactic by banks. There is also a question of trying to find some sort of replacement service where a bank branch closes, whether it be a bank agency, EFTPOS arrangements, mobile arrangements, a credit union or something like that.

The New South Wales government has taken initiatives in the past year. In April last year, the then Minister for Fair Trading the Hon. Faye Lo Po had an urgent meeting with bank executives to raise community concerns and to find out the bank plans on things like fees and branch closures. The general message from the bank was that fees would continue to increase and that the branch closures would continue as well. We sponsored the New South Wales Council of Social Service to run a banking hotline, and it was flooded with over 700 calls, over half from non-metropolitan areas. That report details the concerns that were raised.

The minister convened a series of four regional banking forums across regional New South Wales: in Bathurst, Wagga Wagga, Grafton and Maitland. These were whole day forums which were very useful to let the local community say what their concerns were, to make sure the banks were there to listen to local concerns, and to have discussions about possible options and solutions—what was feasible, what was not feasible. We found that extremely illuminating. That orange report documents that.

As I mentioned earlier, we published this kit to try to help local communities take the initiatives themselves so that they could run a campaign about keeping a bank branch or, if the bank branch was going to close, about trying to get organised to get some alternatives happening. That has been very well received in rural areas. The New South Wales government increased its funding of the very successful CreditCare project, run with the credit unions and jointly funded by the Commonwealth.

The New South Wales government funds two field workers in New South Wales as well as a particular project to see how credit unions can meet the needs of small business. Unfortunately, I must report that, while the banks have made some minor changes as a result of our initiatives, the key issues about branch closures and giving adequate notice have not been addressed.

Finally, I would put our recommendations into two categories: the first is trying to maintain adequate access to banking services in regional areas; and the second is a question of transitional arrangements. We have made six suggestions. They include: a protocol on branch closures; increased Commonwealth funding for the very successful CreditCare project; and licence conditions or a protocol with financial institutions to make sure that there is an adequate supply of banking services in rural areas and the bush is not simply abandoned.

You might be very interested to look at the US model of a Community Reinvestment Act which rates the banks on how they provide services to disadvantaged communities—in America I think it is for both rural areas and poor black areas in the inner city—and uses it as a cross-subsidy between banks. So those who want to go for the more profitable big end of town subsidise other financial institutions which are prepared to provide services to disadvantaged areas.

We have made some recommendations about situations where government agencies in rural areas might be able to provide some banking services. We have suggested that the Commonwealth monitor the situation and some particular recommendations about the training of older people.

That is a very quick gallop through the New South Wales government submission. I would be very interested in any questions you have.

**CHAIR**—Thank you very much for that. Maybe you could start by just explaining a little more about some of the work you have done with encouraging credit unions to take up the opportunities that may have arisen when there was no longer a bank branch, particularly as it involves small business too.

**Mr Drake**—The CreditCare project operates across New South Wales. It is a joint project between the Commonwealth government and Credit Union Services Corporation, the peak body for credit unions, and it receives extra funding in New South Wales where it has been very active. I suppose the best way to explain it is to go through a typical example.



CreditCare will be phoned by a community saying, 'Help! We've just received notice that the bank branch is going to close in four weeks time. What can we do?' They will organise a community meeting with all the local interested people. It is generally a very passionate meeting because people feel very strongly that they are being abandoned. They are worried about the impact on their local community. CreditCare will help them do a survey of what their banking needs are and what existing services there are in the town. CreditCare will then act as a go-between with the local community and a credit union which operates in that broad area to see whether they can get a credit union branch established locally. That depends on their being able to show that it is a viable business proposition, that people will swing their business across to the credit union and that it will generate enough business after a year or two to justify the set-up costs.

It often involves the community chipping in to assist the credit union. A fantastic example is Delegate, where local people would knock off work early on Saturday and come into town to fix up a derelict building in order for it to be opened for a credit union. Again, in Delegate, people went en masse into Canberra to open accounts with the credit union to show them they were genuine about it operating, and then there was an ongoing campaign to try to get people to open accounts with the credit union and to start doing their business there.

Credit unions have had some difficulty with small business because, to date, most of their business has been with retail customers, personal loans and a little on home loans, but they are now starting to look at how they can meet the needs of shops and small businesses and farmers. They have an arrangement with PIBA, the large bank, to act as an agent for farm loans, and with the New South Wales government funding they are looking at how credit unions can service the needs of shops and other small businesses.

**CHAIR**—You mentioned the money that the New South Wales government is putting in. What other steps is the New South Wales government taking to try to expand on this?

**Mr Drake**—The New South Wales government has worked very hard on credit unions. The funding for CreditCare is now \$345,000. We have taken steps to amend the legislation so that credit unions are not at a competitive disadvantage with banks. For example, charitable trusts and anything that previously required money to be deposited in a bank can now be deposited in a credit union. We have looked, for example, at school banking, which is put out to tender to one bank. It is currently held by the Commonwealth Bank. We are looking at whether, if the Commonwealth Bank does not have a branch in that town, a credit union could move in and do the school banking and build up their business that way. So we have taken a number of steps to try to get competitive neutrality so that the credit unions can compete equally with banks.

**CHAIR**—What about in terms of education? I think you talk in your submission about the importance of educating people particularly in using some of these new technologies and so on. What role do you see that the state government plays there?

**Mr Drake**—We do not see that as an area where the state government would have a particular role, but by holding the banking forums we have really been able to bring other parties together. Some of the banks have said they are interested in holding local workshops for older people, and organisations like the Country Women's Association or the Combined Pensioners and Superannuants Association have said yes, they are prepared to host something, provide facilities, advertise it and things like that. The banks will bring

along a mini-ATM and a mini-EFTPOS system and show people how they work and take them through the process. That has started on a small scale, and we have encouraged the banks and the community organisations to increase that.

**CHAIR**—Are there plans to extend this statewide?

**Mr Drake**—The banks have started the process, but unfortunately they have not, although we have suggested it, run a combined campaign which brings all the banks together. So we have a situation where Westpac is doing a campaign in one town and the Commonwealth Bank is doing a workshop in another town. We have not been successful in being able to get the banks organised.

**CHAIR**—So it is a bit of hit and miss at the moment?

**Mr Drake**—Unfortunately it is, yes.

**Mr CAUSLEY**—I suppose it is a pity the minister was not here because these questions are probably best directed at the minister. Is the New South Wales government opposed to the deregulation of the banking industry?

**Mr Drake**—Certainly not. The response that the New South Wales government has made to the Wallis inquiry has supported things like the Commonwealth having power over all financial institutions and getting competitive neutrality between the banks and the other institutions. While the New South Wales government sees benefits in that, it does also recognise that steps have to be taken to make sure that some sectors of the community are not left completely without essential banking services. So the recommendations we have made in the submission are steps that we think can be taken which do not undermine the fundamental market mechanism and competitive banking system or require additional regulation which would go so far as to impede the banking system but would smooth over some of the gaps.

**Mr CAUSLEY**—So with these concerns about the deregulation and how it might affect communities, particularly regional communities, did the then opposition, as they were, make these statements to the Treasurer, Paul Keating, when he deregulated the banking industry?

**Mr Drake**—I am not in a position to comment on that.

**Mr CAUSLEY**—I looked through this document. While it collates a lot of evidence that has been given to this inquiry from other organisations, I wonder what value it has. You said the New South Wales government has very little input into this particular area. So how much of this was really a waste of taxpayers' money and a political stunt?

**Mr Drake**—I think it was an extremely valuable exercise. The communities said they found it extremely valuable to be able to come together and talk about the problems that they were facing and hear the perspectives of other people in their own community. It has been valuable in getting the banks to hear first-hand the concerns of the local community. They have said they have learnt from the exercise and it has also facilitated a number of initiatives, albeit modest, at a local and regional level to address some of the

issues. You now have, for example, the regional economic development boards in the Murray and the Riverina running sessions with the banks to talk about what is coming up over the next 12 months and how they can work together to address the economic development issues. While we do not say that we have a magic wand and we can fix it, the initiatives are certainly very useful.

**Mr CAUSLEY**—So did the state look closely at what state charges and costs might be inhibiting banks staying in these particular regional areas?

**Mr Drake**—Yes. One of the issues raised at some of the forums was a question of both Commonwealth taxes on banking services and state taxes on banking services. Those comments have been passed on to the New South Wales Treasurer.

**Mr CAUSLEY**—Has there been any action to alleviate those costs?

**Mr Drake**—There has not been any action to date. I understand the state banking taxes are under review at the moment, but I am not sure of the progress of that review.

**Mr ALBANESE**—I congratulate you on your submission. I think it is very useful for the committee. With regard to the Community Reinvestment Act of the United States that you were talking about, I am interested in that as a model here. It is a bit unclear, I guess, from your submission whether that is purely a PR exercise in terms of publicising which banks are doing the right thing or whether there are any punitive measures or financial incentives for them to do that.

**Mr Drake**—It is a combination of informing the community about the performance of different banks and providing financial incentives. I do not pretend to be an expert on it. The person who knows more about it is Geoff Derek from the Finance Sector Union. My understanding of how it works is that banks are rated according to their performance on servicing the range of communities and this affects the interest they receive on their statutory deposit with the Federal Reserve. If a bank is performing well it will receive the full interest rate. If it is not performing well it will receive a very, very, very small margin less than that, and that money is used to subsidise other financial institutions who are prepared to go into those areas. In America, as I understand it, you have inner city communities where there are cheque booths sitting on the street corner. There is no bank there and you have the cheque equivalent of loan sharks: 'Yes, I'll cash your pension cheque for a \$10 fee,' because people are left without banking.

**Mr ALBANESE**—With regard to the 36 localities you talk about in New South Wales who have been left with no bank branch at all, the evidence that we received yesterday from the ABA suggested that bank closures were no different from a number of other services leaving a community. I guess it was implied that that occurred only after other services had left a community and that it was just another event, if you like. We have had contradictory evidence to that which suggests that a bank closure has a far more devastating impact than another small business or another organisation leaving a town. Can you perhaps give us a couple of examples in regional and rural New South Wales of the impact that a bank closure has had in terms of leaving that community with perhaps other closures following on from that?

**Mr Drake**—I think, from the bank's perspective, it is a combination of both things. The banks would

not leave a community that was booming and highly profitable. But it is certainly true that the bank's departure does have a snowball effect. I am afraid I am not in a position to give specific examples of that. The University of Southern Queensland research study did look at particular towns and went through and measured the economic impact. Hundreds of thousands of dollars are lost in the local economy. So the impact is certainly substantial.

There are a couple of useful perspectives on banks leaving. It has been suggested to us that some bank branches are closing because the bank branches are completely unprofitable and losing money. But in other situations it has been suggested to us that the bank branch has closed because it is not as highly profitable as some other places which are operating. So it may still be making money but may not be achieving a 15 per cent or 20 per cent return.

**CHAIR**—Can you give instances of that?

**Mr Drake**—The banks do not disclose specific things, but there are comments from ex-bank managers and off-the-record discussions that local government people have had with their local manager. Often the local manager is just as distressed about the bank closing as the local community is. He will say, 'We weren't losing money, but we're not reaching the bank's target. Therefore we have to close.'

**CHAIR**—Can you give us more details on that? That is fairly significant.

**Mr Drake**—Unfortunately it is anecdotal evidence and I cannot give specific—

**Mr CAUSLEY**—Would the bank managers know?

**Mr Drake**—Yes. The banks have a complex set of factors that they look into for each area and for each branch—lending, deposit taking, transactions. The managers have targets set for each of those.

**Mr CAUSLEY**—I know they have targets, but do they know the profitability?

**Mr Drake**—The indications to us are that the managers said they had a good idea of that. I cannot report first-hand, but the managers reported that they have a good idea. The second thing is that the strategy of closure seems to be that in many small towns the bank is relying on the fact that, if they close that branch and it is the last branch in town, they can retain about 80 per cent of the business with the customers being forced to travel to the next town. I think the figures are in the submission. I think it is 80 per cent of loans, 70 per cent of deposits and then a smaller proportion of the less profitable transaction business. So the bank can actually increase its profits by closing a branch. It keeps the business and it slashes its costs. So that seems to be the dynamic which is driving a lot of the closures.

**CHAIR**—I want to bring you back to the point Mr Albanese raised about the Community Reinvestment Act. You said someone else has more information on that. I was wondering whether you might be able to supply the committee with some experiences of how it is actually working. Yesterday we did have a submission that suggested that, while it is effective in the shorter run, in the longer term there are some questions about its overall long-term effects.

**Mr Drake**—It is an issue which has been suggested to us as a model worth looking at. We have some fairly basic written material about how it works, but we do not have any particular insight into how it works in practice in the United States.

**Mr PYNE**—The terms of reference of this committee are not so much about the problems facing towns because of bank closures, because we are aware of what they are, but more about the solutions and what we can do about the fact that they close. What do you think governments can do, either the New South Wales government or the federal government, to alter habits, perceptions and traditional forms of banking that seem so ingrained particularly in rural areas and amongst older people which make them so desirous of hanging onto the old systems rather than learning the fact that there are new methods which are as effective and perhaps less costly than the old systems of banking?

**Mr Drake**—I have talked about the educational measures which can help the people who are able to adapt to the new system. But I think it is important to recognise that electronic banking simply does not meet the needs of some people. If you were to look, for example, at delivering social security benefits via a smart card or something like that, that would meet the needs of some people but it would not meet the needs of other people. In relation to the particular steps that could be taken, the one that leaps out at me is a protocol on branch closures. I know it is a transitional measure. In practical terms it seems to be that, if there is a gap and people have to transfer their accounts to another town and start banking there, it becomes much harder to re-establish any local banking presence. So a protocol on branch closures would be an extremely useful step.

**Mr PYNE**—What would a protocol on bank closures require banks to do?

**Mr Drake**—For example, give three months notice that they were going to close a branch. If that was something which was imposed upon all banks, it would be competitively neutral and it would give the community a chance to get organised and find an alternative banking system, or at least investigate the possibility, so that there is not a gap between the two.

**Mr ALBANESE**—Do you suggest that the reason why they give shorter notice is politics, basically? They give short notice so they can duck out before the community gets organised?

**Mr Drake**—Two reasons were suggested. One is a media strategy—by keeping the period short, they will keep the period of flak short. My experience is that the reverse actually happens. There were a couple of occasions where banks had given long-term notice that these branches are really at risk and the community appreciated that and responded positively to the bank. So one is a media strategy.

The second is that question of how much of the business they can retain. The strategy seems to be that, the shorter the notice you give, the less likelihood that people are going to go to another bank or make some other arrangements. So it is a strategy to retain as much business as possible.

**Mr ALBANESE**—Wouldn't that apply only if there was another bank branch in the town, though?

**Mr Drake**—No, the people might look around and say, 'I might move to another bank anyway,' or, 'I'll go to that town over there instead of that town where my bank is.' It seems to be a deliberate strategy

that has been suggested to us.

**Mr ANTHONY**—I noticed in your submission here you have got leading the pack ANZ with 34 closures, Westpac with 28, CBA with 27, NAB with 16 and down it goes. Of those banks, which banks are handling the closures better than others? Are some of them giving less notice than others?

**Mr Drake**—The period of notice seems fairly common at around three to five weeks. I would not single out any particular bank. The Commonwealth and the Westpac banks have certainly discussed with us their strategies about looking actively at what they can do to find alternative mechanisms in small towns. The other banks may have strategies in place, but they have not discussed them with us.

**Mr ANTHONY**—Can you supply a list—or maybe you can tell us now—of how many credit unions have gone back into these areas and/or how many credit unions have also closed in country areas?

**Mr Drake**—I am pretty sure CreditCare has made a submission to the committee. I think that would be listed in the CreditCare submission. I do not have it with me today. I am not aware of any instances where credit union branches have closed in regional New South Wales and in a number of instances they have been able to open new branches.

**Mr ANTHONY**—Finally, how much of an issue are fees and charges in the workshops that you have had in those four regions?

**Mr Drake**—It is something that people feel very strongly about. It is raised frequently. Partly it is a question of people now being asked to pay fees for something that they received without a fee in the past. It hits some people particularly hard. If there is a limit on how many over-the-counter transactions you can make—

**Mr ANTHONY**—So it is all charges that people are upset about?

**Mr Drake**—There are some particular instances where it feels particularly unjust that you are charged a fee for getting over-the-counter service rather than using an ATM. It particularly galls people who do not have an ATM. Some banks give a waiver from the fee to people who cannot use ATMs because of a physical disability and some do not.

**Mr ANTHONY**—Was there much feedback on FID and BAD taxes?

**Mr Drake**—It was mentioned at some of the forums, but I would not say it was one of the strong themes.

**Mr PYNE**—Can I return very briefly to the statement you made before about the length of notice of closure. I suppose it would be fair to say that it would not be in a bank's commercial interest to allow a local community to have three months in order to find another bank or credit union to move into the town to replace that bank because that would simply mean they lost all their accounts to that new bank or credit union. So it would be fair to say that it is in the bank's commercial interest for them not to give proper

notice to the local community.

**Mr Drake**—It is certainly in their commercial interest. But it was certainly put to us that it was not in the national or community interest for banks to be allowed to behave that way.

**Mr PYNE**—That is right; I just wanted to get that onto the record.

**CHAIR**—You said you had some discussions with two of the banks about this strategy. Were there any results from that discussion?

**Mr Drake**—The way the banks put it was that they were looking at methods: rather than saying, ‘This sector of banking isn’t profitable so we’re going to pull out of it completely,’ those banks certainly discussed with us their strategies for trying to find a profitable way of servicing those communities rather than completely pulling out. It is a matter of degree between the banks.

They would discuss things like banking through agencies—that is, a local shop or real estate agent acting as a bank agent—or assisting places like the local RSL club to have an ATM, or getting EFTPOS into local stores so that those facilities are there. There seems to be some degree of difference between the banks about how actively they want to work to continue to service that community in some respect. Some of the banks seem to be saying, ‘It’s not profitable; let’s just back out of it.’

**CHAIR**—Did you actually feel that you got some tangible results from those discussions?

**Mr Drake**—It was a report on what the bank was planning to do rather than any discussion of how they would change their plans as a result of the concerns which had been raised.

**Mr WILTON**—Has your department had any discussions with the local government ministry with a view to encouraging and assisting in the facilitation of local governments and councils providing some sort of a one-stop shop arrangement in the town—for instance, resourcing an ATM location or something like that?

**Mr Drake**—We have not done that through the Department of Local Government but, at all the forums, local governments were very active participants. In the strategy outlined in *Taking charge*, when there is a community meeting, local government is one of the key players. So we felt that they were already very actively involved and were well aware of the sorts of strategies they could take. For example, in some instances, local government has said, ‘We will swing our business behind this credit union and deposit half a million dollars with them if they are prepared to open a local branch, to help them along.’ There have been some instances of them acting as agents for credit unions.

**Dr SOUTHCOTT**—In the 36 locations where there is now no bank presence, where banks have closed over the last three years, how many have absolutely nothing?

**Mr Drake**—We compiled the survey by asking each of the banks to provide the names of towns where they had closed branches. We did not do a survey of what facilities were there, so I am afraid I do not have a specific answer. It would range from places like Delegate or, in the south-west, Walla Walla, which

now have a credit union branch, either full time or part time, to Ulmarra outside Grafton, which has a post office in the town which acts as an agent for one or two banks, but that is all.

Most of the towns would have a post office which could do limited banking, but there is a bit of a catch-22 situation here in that Australia Post says, 'We can provide a whole range of banking services,' but it depends on them having a computer link. The post offices in the smallest towns are licensees, not Australia Post owned premises, and it is less likely to be profitable to have that computer link. So some of these towns would be left with manual banking only through the post office. Some would have electronic banking through the post office. Some would have EFTPOS in the local general store, pub, club or wherever.

**Dr SOUTHCOTT**—You do not know of any towns where there has been no banking presence left at all?

**Mr Drake**—I cannot recall one, but it was not a discussion that people were raising with us. We now have places like Carbonne shire, south-west of Parkes, which does not have a single bank branch in the whole shire. I think there are eight small communities in the shire.

**Dr SOUTHCOTT**—Do they have access to other things like agencies?

**Mr Drake**—There are a couple of agencies, but it certainly limits the choice and it certainly means that banking for a small business is very problematic.

**CHAIR**—As there are no further questions, I thank you both very much for taking the time to appear before the committee. I also thank you both for your input.

**Sitting suspended from 10.46 a.m. to 11.48 a.m.**



**CORONEOS, Mr Peter, Executive Director, Internet Industry Association, GPO Box 826, Epping, New South Wales 2121**

**CHAIR**—Welcome. I remind you that the evidence you give at the public hearing today is considered to be part of the proceedings of the parliament and accordingly I advise you that any attempt to mislead the committee is a very serious matter and could amount to a contempt of the parliament.

The committee has received your submission, numbered 54, and it has been authorised for publication. Are there any corrections or amendments you would like to make to that submission?

**Mr Coroneos**—None, except in so far as the comments I make today may perhaps update some of the material that is in there.

**CHAIR**—Would you like to make a brief opening statement before we proceed to questions?

**Mr Coroneos**—Thank you. The committee would have seen that the submission from the Internet Industry Association generally supports the initiatives of the government in respect of the efforts that are being made to improve access of rural and regional Australians to the Internet. However, having said that, I have identified in this paper some of the areas of deficiency which we see and perhaps give some thought to recommendations which may enhance the access of Australians to the Internet. We see the Internet as being a means which in the medium term at least may go a long way to alleviating some of the problems that regional Australians are facing in respect of their access to basic banking services. To that extent we believe that the submission does address the terms of reference and will hopefully contribute to some positive outcomes.

Perhaps, rather than speak generally to the submission, if committee members are happy to put questions to me, I may be able to elucidate some of our points.

**CHAIR**—First, could you tell us a little bit more about the Internet Industry Association itself?

**Mr Coroneos**—We are the peak industry body representing the Internet industry in Australia. Our membership includes telecommunications players—Optus and Telstra—as well as some of the major, medium and smaller sized Internet service providers. In addition to that, a number of law firms, software developers and content providers are members and they all see the Internet as a natural extension of their existing businesses. I think it would be fair to say that, collectively, our members facilitate over 95 per cent of the Internet traffic which is occurring in Australia at this time.

Our association has a self-proclaimed charter which sees our role as being a body which facilitates the growth and development of the Internet in Australia. To that end, we play quite an active role in advising government and meeting with other bodies to try to develop a coherent set of policies which will provide the kind of environment in which the Internet can prosper.

**Mr CAUSLEY**—Are you a commercial operation or an organisation?

**Mr Coroneos**—We are an organisation.

**Mr CAUSLEY**—Just a grouping together?

**Mr Coroneos**—That is correct.

**CHAIR**—Could you start by outlining to the committee what you see is needed to allow technology to keep pace with the bank branch closures that have been occurring?

**Mr Coroneos**—I think there are two aspects to that question. The first one is the simple accessibility of Internet services for people in regional and remote areas. So there is an infrastructure kind of component to that. The second limb of the equation is the development of online banking technologies that will allow for the secure transactions of commercial data streams—things that people can feel confident will provide them with the security that they can trust to interact with banks, or bodies that will be assuming the role of banks, and will allow them to engage in online electronic commerce so that they can buy goods and services over the Internet.

**CHAIR**—In terms of security for online banking, you say that it can already be provided, yet the banks seem a bit reluctant to use it in some cases.

**Mr Coroneos**—Yes. Our observation has been that the technology has been available for some time. The technology is not perfect, and we do not purport to say that the system will be infallible. What we do say, however, is that the existing technologies are at least as secure as those which are currently available by non-electronic means—for instance, credit card transactions over the telephone. We say that online encrypted transactions are at least as secure as that, if not more.

The issue is not really one of availability of technology. We see that the issue is more one of consumer confidence in the Internet—feeling that they can safely engage in these kinds of transactions. I believe that, to the extent that electronic commerce in Australia has lagged behind other parts of the world, particularly the United States, it is because we have not seen a large presence of major corporations on the Internet. It would make people feel confident to see that it is okay for the large corporations to be setting up as vendors and merchants on the Internet. Until they see that occurring, they are going to feel reluctant to trust the medium.

**CHAIR**—But doesn't that raise the question that, if they are not going on, there must be some concern there that is causing them not to want to do it?

**Mr Coroneos**—We say that it is a perceptual thing.

**CHAIR**—But not all corporations would do that on a perception.

**Mr Coroneos**—It is difficult to ascertain what the corporations might be thinking. We are not mind-readers. We cannot actually get into the boardrooms and find out why they are not. The Advance Bank, for example, has been providing online banking services to its customers for at least a year now. The

Commonwealth Bank of Australia has recently provided a wider range of online banking services.

So I think we are seeing a change occurring here. It may be that the corporations are taking a 'wait and see' approach to see who will break first. I am quite sure that they are all well developed in their own strategies for taking advantage of on-line banking and commerce, but I think there is that element of not necessarily wanting to be the first cab off the rank.

**CHAIR**—You say that it is at least as secure as telephone use of bankcard. But I would not have thought using the bankcard over the telephone is a very secure form of transaction anyway.

**Mr Coroneos**—Possibly not, but that is the point: people, nevertheless, are using credit cards over the phone but they are not using the parallel facility over the Internet to the same extent.

**CHAIR**—But isn't it the perception that with a bankcard, at worst, you have a limit if someone tried to abuse it whereas with banking on the Internet what limit is there for anyone getting into an account?

**Mr Coroneos**—I suppose that is up to the banks and how they want to set up these facilities. I cannot see any reason in principle why a customer could not authorise in advance a limit on the account, what they will allow to be transacted in their name. I cannot imagine that it is not impossible to put these kinds of controls in place.

**Mr CAUSLEY**—We had evidence this morning from a bank that it was possible, even in isolated communities, to do banking over a telephone line. You seem to be saying that that is not secure, that you would be better off with—

**Mr Coroneos**—I hope that is not how my comments have been interpreted. I am saying it is at least as secure as what can be done by other means which people are accustomed to using. I attended a conference on Monday and Tuesday on crime on the Internet. Some of the speakers there—criminologists and people who are far more aware of the technology than me—say that with encryption it is almost impossible, if not impossible, for that transaction to be intercepted. That is why we are seeing Advance Bank and the Commonwealth Bank providing the ability to pay bills over the Internet.

I should also add to that that some of our member Internet service providers are also developing secure commerce gateways over the Internet where they provide the encryption and the authentication, with arrangement with other banks, so people can conduct real-time secure electronic commerce from their homes.

**Mr CAUSLEY**—What about cost? Have you done any analysis of the relative cost of the Internet as opposed to other systems?

**Mr Coroneos**—No. We have not done any analysis of that, but I would suggest that the banks would have. There is anecdotal evidence which suggests that it has to be a lower cost structure than manning physical branches with physical tellers. I think that may be part of the reason why there is this move toward the rationalisation of bank branches in the regional and remote areas.

**Mr CAUSLEY**—Do you have any figures at all as to what numbers of people might be accessing the Internet from regional Australia and what growth is involved in that access?

**Mr Coroneos**—I do not have percentages but I can say that 85 to 90 per cent of Australia is now covered by local dial-up. There is that part of our submission which addresses the fact that there is a component of Australian society that is not able to access Internet services at local call rates. We see that as a deficiency and something which should be addressed. There is a strong equity situation here.

I suppose the point we are coming from is that basic banking services should be seen almost as an essential facility or a right of Australians to have. To the extent that physical locations are closing down, then I suppose that right is being infringed. We would like to see the Internet as being one of a number of possible media that could fill that bridge. We note with approval the work that Australia Post has done in its giroPost networks. We see that kind of thing could be extended.

Clearly, banks have the confidence of the local communities in that they have been there for a long time and people are accustomed to going there to do transactions. It may be that the technology would permit other organisations—non-traditional banking organisations—to fulfil that role. To that end, I am aware that the local government in New South Wales is looking at providing facilities, in conjunction with some of our Internet service provider members, so that they can perhaps take over that role.

In the future, libraries might contain kiosks. After all, at the end of the day it is just information. The fact that it may have a commercial emphasis is in one sense not relevant. It may be in libraries, it might be in Australia Post branches, but we would see as logical that anything with an established physical presence in principle would not be precluded from taking on the role of an interface between the customer and the financial network.

**Mr ANTHONY**—In your submission you talk about how electricity companies and telecommunications companies may be replacing a lot of the financial services that banks have been providing. Could you elaborate on that?

**Mr Coroneos**—Again, I cannot give you names of individual corporations that may be involved, but clearly it would be a natural progression of their business to the extent that legislation would allow them to take on more of the role of banks. They have an established customer base, they may have an established billing structure, and they have certainly got consumer confidence in that people have been used to dealing with them over the years. To the extent that they can integrate financial services as another extension of the kind of services they offer, there is no reason at all in principle why they could not take on some of these roles.

**Mr ANTHONY**—With the new technology, will you be able to just send it through a telephone line or the plumbing?

**Mr Coroneos**—I am aware that there is a joint venture between Nortel in Canada and another institution there—maybe a utility company—that is actually developing technologies whereby data can travel down electrical wires, as opposed to modem or telephone wires, so that in the future it may not even be

necessary to have a separate box to your computer that will be required before you can access the Internet.

**Mr ANTHONY**—The data will go down the powerline—is that what you are saying?

**Mr Coroneos**—Yes. I believe that the technology allows the data to leapfrog or somehow miss the actual electrical current that is travelling down the same wire. A lot of innovative technology is developing now which will force us to reconsider how we in the past we have seen the delivery of information services. As I say, the place to look will be with corporations and entities that already have established customer bases, have a relationship with them and have a means by which they can send out accounts.

**Mr ANTHONY**—What has the trend been like in the United States or other countries with the use of Internet with electronic banking? Also, what is happening in remote communities there—are you aware of that?

**Mr Coroneos**—I can only speak generally, but it seems that the banks in America have been far more proactive in providing on-line services and, to the extent that they have overcome the kind of infrastructure problems that I referred to in getting people on-line in remote areas, then those people are able to access the range of banking services that are presently only just emerging in Australia.

**Mr WILTON**—Despite the fact that, as you have said, a large percentage of the Australian nation has access to dial-up, a low percentage of people actually use Internet even though, like myself, they have it at home, but they never turn it on because they have no reason to so. Do you have any suggestions as to how people in remote areas might be nurtured or engendered to use it? At no stage, either in your written or verbal submissions, have you mentioned the word 'education'. Do you have any plans to propose an educational strategy that might also encourage people in those outposts to have a go?

**Mr Coroneos**—That is a very pertinent question. It comes back to my initial proposition that the problem is more a perceptual one than an actual one. Perception arises through a lack of understanding of what is available and also a lack of role models. We could see kiosks set up in places where people go. It might be that you would set the first ones up in Australia Post offices. It need not be connected to their existing networks. It might be something that an Internet service provider might do as a joint venture, perhaps.

You would need to have staff available who could walk people through the process. It is a process of familiarisation so that they can see that the technology these days is not very difficult to use at all and that it is a matter of being introduced to it. I think there is no substitute in the first instance for having a person take you to a terminal and take you through the steps.

To the extent that these kiosk type situations are made available, whether it be through local government or through Australia Post, there should be an emphasis on resourcing that with people who can be the facilitators between the potential user and the technology, who can show them how it works and make them feel comfortable. Look at how ATMs have taken off in Australia; they are not restricted to the technologically literate these days. Those kinds of breakthroughs should be occurring here, as well. Once people get into the habit of using these kiosks, once they have become used to using the interface in a safe

environment, let us say, where they feel confident that if they need help someone can provide it, it is only a very short step then to transferring that onto the desktop at home. That is where we see the medium-term situation developing.

But I take your point, and education is a large part of this. If we want to be serious about engaging our population in the benefits that the Internet can provide then there have to be telecottages and schools, perhaps, opening up at night for parents to come and use the facilities. We should try to maximise the existing infrastructure as well as we can to break down the barriers of resistance.

**Mr PYNE**—What is a telecottage? I asked this question yesterday and they did not know, either.

**Mr Coroneos**—My understanding is that it is a facility, a place, where people can go, let us say, in a small town, that has a range of technologies available. It may have a few fax machines, some Pcs, some computers that are networked. There may be an administrator there to maintain the equipment and provide training. It is a place where people can come to use technology that they themselves have not yet decided to invest in.

**Mr CAUSLEY**—Who would set them up?

**Mr Coroneos**—It could be a joint initiative between local government and industry; it could be something that the government sees as being worthy of funding. It is a difficult question to answer. I can see a number of possibilities that would make it feasible.

**CHAIR**—The Commonwealth has in the past helped finance them. Mr Coroneos, I would like to go back to your answers to Mr Anthony about overseas experience. How widespread has the acceptance of this technology been overseas compared with that in Australia?

**Mr Coroneos**—I would have to take that on notice. I can provide the committee with those indications. The Internet by its nature is a very difficult entity to quantify but there are certainly research companies dedicated to trying to garner some kinds of statistics. With your leave I can get that information to you.

As a general observation, I refer to some research by an institution called Forrester Research in the United States. The results I am referring to are qualitative but they certainly make an unequivocal statement that Australia, Italy and France, out of some of the OECD countries, are lagging behind the United States and Japan. I would presume that there are some statistics behind that and to the extent that they are available I am happy to get them to you.

**Mr CAUSLEY**—You would be aware that the federal government has an infrastructure fund. You were talking about the advance in technology and how fast it is moving at the present time. Would you have any suggestions as to how that money could be wisely spent? Obviously we are trying to get the best result for the dollar to help regional Australia.

**Mr Coroneos**—Yes, and I have noticed to that end that there have been advertisements for people to

submit proposals for funding under that fund. As I understand it, vendors are not permitted to provide solutions under that fund. It is meant for a non-commercial use or for end-user organisations, although I note that occasionally governments will submit applications on behalf of organisations. I would think that for the best use of that fund it should be managed in a way that is consistent with what industry is doing independently of the fund so that we avoid duplication. I am not sure how the fund is actually administered but I hope cognisance is given to what industry is doing.

I note that one of our large Internet service provider members is entering into negotiations now with local government to try to provide infrastructure. Those kinds of initiatives should be married in without the RTIF moneys being expended to avoid duplication and to maximise the benefits.

Generally speaking, points of presence have been deficient. It has been difficult for local people to get local dial-up access at a local core rate of 25c. The national telecommunications carrier has developed other products. One is called dial-connect service but that appears to be charged according to distance. I would like to make the point that in this day and age, when data does not necessarily travel by the shortest geographic route, to have a pricing model which is based on geographic location does seem a little anomalous. So, to the extent that this fund can perhaps supplant some of these kinds of initiatives with a more equitable method of charging people, that would be a very positive initiative in our view.

**Mr ANTHONY**—You talk about the Regional Telecommunication Infrastructure Fund and you recommend that there should be spending on digital receivers, retransmitters for satellite broadcasts for remote areas, et cetera. Do you see a time when it is going to be cost effective to put up your own dish or your box wherever you are and that there will be digital banking all through satellite? Is that years away or is that going to be a reality that we are going to face shortly?

**Mr Coroneos**—They say that the Internet year is eight weeks. Technology accelerates, as you would be aware. It does not progress in a linear fashion.

**Mr ANTHONY**—Do you mean that you are developing a technology every eight weeks?

**Mr Coroneos**—The Internet almost reincarnates itself as a slightly different, better and cheaper medium every eight weeks.

**Mr ANTHONY**—How do you keep track of it?

**Mr Coroneos**—It is very difficult. You only have to go on holiday for a month and when you come back you are completely out of touch. There may be other emergent technologies as well but, certainly for regional areas where the cost of laying traditional telephone lines has always been very high, these wireless technologies provide a very exciting solution. It is one of the ways where we see that the geography should be irrelevant in the same way that we say that Australia can engage the global market through electronic commerce irrespective of the fact that we are so far away. The same logic applies.

**Mr ANTHONY**—But ultimately the delivery system is satellite, isn't it?

**Mr Coroneos**—Ultimately it will be a mix.

**Mr ANTHONY**—But it will flow to remote areas?

**Mr Coroneos**—For remote areas, if they do not have a fibre optic line running out to their doorstep—

**Mr ANTHONY**—And most of them do not.

**Mr Coroneos**—And most of them probably will not ever have—unless it goes through power lines or something that is already there, I would have to agree that satellite provides the most immediate solution to that.

**CHAIR**—Thank you very much for that. The committee appreciates your contribution and we will certainly add it to what we already have.



[12.14 a.m.]

**CONNOLLY, Mr Chris, Director, Electronic Money Information Centre, Consumers' Federation of Australia and Electronic Money Information Centre, GPO Box 846, Sydney, New South Wales 2001**

**STRINGER, Ms Anne, Policy Officer, Consumers' Federation of Australia and Consumer Credit Legal Centre, 72-80 Cooper Street, Surry Hills, New South Wales 2010**

**CHAIR**—I welcome Ms Anne Stringer and Mr Chris Connolly from the Consumers' Federation of Australia to today's public hearing. I remind you that the evidence you give at the public hearing today is considered to be part of the proceedings of the parliament. Accordingly, I advise you that any attempt to mislead the committee is a serious matter and could amount to a contempt of the parliament. The committee has received some of the information that you have presented to us and another submission.

Resolved (on motion by **Mr Anthony**, seconded by **Dr Southcott**):

That the submission of the Consumers' Federation of Australia be received by the committee and authorised for publication.

**CHAIR**—Would you like to make a brief opening statement before we proceed to questions?

**Ms Stringer**—Thank you very much for giving us this opportunity to speak to the inquiry. We should first of all apologise for the late arrival of our submission and note that there are some appendices that need to be attached to it. The submission proposes a package of reforms which, for us, represent something of a compromise solution in that we are trying to avoid a high noon stand-off. We would also like in these introductory remarks to challenge a little the sense and reality of the competition-keeps-us-on-this mantra that we heard from the ABA yesterday.

In our submission, we refer to the PSA report of 1995, which was the most comprehensive examination of fees and charges in the Australian banking system that we have yet seen. It was a bit hamstrung by the banks' inability or unwillingness to supply full data and was also made difficult because there are variable components in the calculations. But it did find no evidence of a squeeze on margins, no evidence that retail transaction accounts are unprofitable and no real evidence of competition in the banking sector. The only evidence of competition that we have seen is in the housing loans market. Otherwise, it has been a pea and thimble trick with loyalty programs. The well-off consumer has tended to benefit more from the introduction of new products on the market. Any benefits to consumers seem to have come from the introduction of technologies rather than benefits flowing from competition.

The PSA report also found evidence of unfair and regressive fee structures. Does it really cost \$20 to \$50 to process a return cheque? Why is somebody who cannot afford to put a minimum balance in a bank account charged more than somebody who can? These trends have continued. We have not had the same sort of study. Anecdotally, we are sure that these trends have continued and have not been turned around since the PSA report. Banks again yesterday claimed that they could no longer cross-subsidise unprofitable customers or unprofitable areas. We have seen fees on some low income accounts rise by 100 per cent in the last year whereas you can get a gold visa card now for free. Telephone banking is also free at the moment, but it costs

the banks more per transaction than the ATM transactions. Who is subsidising telephone banking? Is it the people in Dubbo who are forced to use a foreign ATM? The Australian banking system starts to look a bit like the *Titanic*, with the passengers and steerage supporting the parties on deck. As Chris will point out later, they will not have access to the lifeboats when we hit the iceberg.

We support competitive neutrality, obviously, which is why we urge the government's intervention. The banks have had a monopoly membership of the settlement system for many decades. They get 10 per cent of their revenue, or \$300 million per year, from the payments clearing system. This will alter post-Wallis a little. It will take a while. In the meantime, banks have a head start. If we are talking about a level playing field, they are up the top. They have a head start in the assets they have accumulated through this special relationship they have had with the payments system in the past. The commercial value of their image as solid, safe and reliable has been somewhat tarnished recently, but it is still there.

Since deregulation, the banks' share of the market has not dropped. In fact, their market share of demand deposits has increased from, in 1980, 68.8 per cent to 76.9 per cent in 1995. The cost of technological changes will be borne by the public, and the banks and the finance sector will benefit from them. This is a solution that is often touted to get the banks out of this terrible mess that they are in.

Let us look at the actual costs and benefits of changes towards electronic technology and the benefits the finance industry gets from slippage, which is whatever value is left over on stored value cards that cannot be redeemed or that are lost or souvenired. Some cards from the Atlanta Olympics are now worth \$400. Business builds that into their business case. There is the float, and industry gets interest on the float. That is again on stored value cards. Instead of having that money in the deposit account theoretically earning some interest, the money will be in the bank's account and they will gain advantage of the interest on the float. They will obviously get income from fees and charges. There have been a number of fees and charges mooted on different products. There are other possible costs that consumers may not recognise straightaway, such as for telephone banking. It will be at least the cost of a local call, and the telephone industry will get that advantage.

The only advantages that we have seen so far for consumers are convenience and not having to queue for so long to make some payments. It is not surprising that consumers are a bit wary about taking up new technologies. The take-up rates are not fantastic. They are a lot less than industry predicted. Only 25 per cent on average have taken them up from these trials that we have seen so far.

As the ABA said yesterday, if you want telephone banking, you have to look at whether consumers will use these new technologies. Consumers do want some of the new technologies, but they add them into the mix of products that they are using already. Somebody who can afford telephone banking and who can access it will add it on to the other products they use, such as credit cards or debit cards for large discretionary purposes, direct debit for their regular mortgage payments and cheques and cash for over the counter payments. Seventy per cent of bills are paid over the counter. The public is not necessarily taking on electronic commerce methods if they can. They want the option of adding them to the bucket of choices that they already have. I will now hand over to Chris, who will tell you about the problems with electronic commerce as a solution.

**Mr Connolly**—I have only a few short points to make. My field of expertise is smart cards. I was here yesterday and I certainly got the feeling that members had a number of questions about smart cards, including when they were coming and what they would do. I am happy to take questions on that. My initial point is that a stored value card is no cure-all as a replacement for traditional banking services. The suitability of smart cards for a wide range of people has not yet been shown successfully. Examples include people from non-English speaking backgrounds, people with disabilities, older people and people in remote areas. The trials of smart cards to date have not proved successful in communities where they are not remote, where there is a high level of English spoken and where the people are technologically proficient. Examples are Newcastle, the suburbs of Sydney and the suburbs of Canberra. In those circumstances, plunging headlong into smart card technology for disadvantaged people, people in remote areas and older people will not be a sensible option at this stage. I am one of the people who is of the view that smart cards are at some point inevitable and will become a part of life.

However, the rate of introduction of smart cards and the rate of take-up has actually been much slower than anyone would have predicted. Smart cards were invented in 1975 and they have taken a long time to get going. The previous speaker, Mr Coroneos from the Internet Industry Association, mentioned that in Internet they consider that one year is eight weeks. The smart card industry may be categorised by saying that one week is eight years. That is about how long some of these systems take to get off the ground.

If we want to have a quick look at the facts in Australia, there is no major smart card roll-out planned in 1998 by any company, apart from Telstra. In 1999 there is only one major smart card roll-out planned, and that is Mondex. Mondex has not succeeded in any other jurisdiction in the world in introducing smart cards quickly or in large numbers. So when we say smart cards are coming, it is not going to happen this year and it is not going to happen next year. It is unlikely that it will happen without a major killer application being introduced. There is a lot of talk about Centrelink providing smart cards and that being the killer application for the introduction of smart cards in Australia.

The consumer and privacy movement are involved in negotiations with Centrelink about managing the privacy issues of the government issuing smart cards. Their timetable also does not look realistic and, in any case, is not going to happen this year or next year as well. So there will be a delay in the introduction and widespread use of smart cards.

The Telstra roll-out is the most successful to date in the number of cards it has got out. But it has not been particularly fast and there have been a number of problems. They have hundreds of calls to their hotline every day asking which way the card should be put into the machine. People were not aware that there was any way they could get money back on the old cards, which the smart cards replaced, and started writing letters to the *Herald* and ringing consumer organisations and saying, 'I've been ripped off. Where do I get my money back on my old card?' There is a system in place but it simply has not been advertised and people are not aware of it. There is a reply paid postal address for people to contact to get their money back on their old cards. That is typical of the sorts of problems that are faced with the introduction of new technologies.

A major point that the Consumers' Federation of Australia would like to make is that these new technology products do not provide, under the current system, the same level of consumer protection as some more traditional products. The EFT code of conduct does not extend to stored value cards or telephone

banking or Internet banking. Consumer protection will be a vital necessity for confidence to improve the new products and to address situations where there are breaches and where remedies and sanctions are needed.

Privacy is also a major issue which is currently holding back the introduction of electronic commerce and smart cards. Australia is sending a very poor signal to the public when it comes to privacy by saying that we do not need or will not give privacy legislation to the private sector. We are the only developed nation that has made that decision. Canada was the other one but last week Industry Canada announced that they have changed their mind and they have moved from a voluntary code to privacy legislation. So Australia is now alone as a developed nation without privacy legislation. That is something that will hold back the introduction of smart cards. We will be doing things in the wrong order if we say that bank branches can close and new technologies will replace those branches without first putting in place the consumer protection and privacy legislation that is needed.

The industry itself could also do a lot to improve the protection of consumers and the protection of privacy in the introduction of smart cards. I was one of the people who spent two years writing the smart card code of conduct for the Asia-Pacific Smart Card Forum. It was obviously very disappointing to find that, after that process, National Australia Bank, ANZ, Commonwealth Bank of Australia, Westpac Banking Corporation, Mondex, Visa and Mastercard all refused to sign the code. It is a self-regulatory code. It is incredibly flexible. It is probably the most light-handed piece of self-regulation ever written and they have refused to sign it. That also does not send a good signal to people who are being told, 'The smart card will replace your traditional bank.'

We see one of the roles of this committee as looking at tools to manage for the changeover from traditional banking to electronic commerce and smart cards. It is going to take time. So you might see that some of the work which you can recommend will have a sunset clause in it and eventually electronic commerce will become prevalent. But, in the meantime, you can see that there is a crisis in banking in the bush and there is a crisis in banking for underprivileged people.

So, in those circumstances, what are the tools that can be used to manage that change? In our proposal, we support monitoring of the costs and access to those products. Maybe that will only be necessary for the next few years. We also support looking at what would be called in other industries community service obligations. When Telstra was part-privatised the industry was still required to keep in place community service obligations and the STS, the standard telephone service. However, when the Commonwealth Bank was privatised nothing was done to keep in place any commitment to banking in the bush.

During the deregulation of the telecommunications industry, a consumer representation and advocacy fund had been established to support groups who were doing really good work in the telecommunications industry. Nothing like that has been done in the financial services sector. I am sure that, like me, members were impressed yesterday with the submissions of the Australian Pensioners and Superannuants' Federation and the sort of detailed work it has done—looking at what happens when a branch closes, what happens with telephone banking and why can't we have a button to slow down the voice, et cetera.

That sort of detailed work and input comes very cheap for the government if you support groups like

the Pensioners and Superannuants' Federation, champion organisations to become a think-tank and do research and stand up for the rights of consumers. The cost of supporting them, I would imagine, would be a lot less than one telecottage. So, in terms of what this committee can do to look for tools, perhaps the committee needs to support those groups now and recommend—

**CHAIR**—That is really outside the terms of reference of the committee.

**Mr Connolly**—Okay, I do not think the next point is. The committee should recommend, as a tool for managing the change, some sort of industry fund be set up to support advocacy groups who are looking after the interests of banking in the bush.

The final point I would like to make is that when people say that one technology or a multitude of technologies will replace a traditional bank branch, I think there is a bit of problem in that sort of analysis. A bank account is more than just a way to access cash; it is a way to access a relationship with financial service organisations. A bank account is a stepping stone to life insurance products, general insurance products, retirement products and other forms of financial services. Without a bank account as that first step, people will miss out on that potential for those relationships.

Often, the reason someone cannot afford a bank account or cannot find a bank account if a branch is closed is really a temporary thing. That person may not have money at the moment, this year, but over time, throughout a person's life, they will come in and out of money at various stages. Really, without that entry into the banking system, we will end up with an unbanked class of people who will suffer because of something that happened at one point in time. That is the end of my short comments, but I am happy to take questions, especially on smart cards.

**CHAIR**—Ms Stringer, in the submission you talk about there being no conclusive evidence on the non-profitability of retail transaction accounts. I think you go on to say that the banks report significant losses on RTA in 1994, although at least one bank has recorded substantial profits on RTAs at least twice within the past seven years. Could you expand on that a little because that is a fairly significant claim?

**Ms Stringer**—I wish I could expand on it a lot more but, as I indicated in my introductory remarks, the data is actually very difficult to get. The banks claim that it is commercially sensitive. The way that their profits are calculated sometimes takes into account direct costs and sometimes indirect costs. I think the PSA found that it was very difficult to make any conclusive arguments about profitability.

What we are suggesting in our package of reforms is that the banking sector, and any deposit-taking institution, be monitored and that retail transaction accounts be monitored for their costs and benefits so that we have that information, partly so that consumers can make a rational choice about which product to use, but also so that, as a community, we know whether assertions that banks make about profitability are realistic or not.

**CHAIR**—I am curious to follow this up. You made quite a few assertions in your opening remarks and I am wondering how you back them up. Have you some overseas experiences?

**Ms Stringer**—Some of the figures I got were from standard texts like *Banking law and the financial system in Australia* by W.S. Weerasooria, which is about the market share of banks and where they stand. They were not from overseas sources; they were all from local research and standard texts.

**CHAIR**—To back up the claims that competition does not necessarily keep people honest and so on, I am wondering, without becoming totally intrusive into what is going on in the financial systems—or before anyone would want to do that—how would we get some sort of evidence that says that there really is a gaping hole in the whole system, other than the concerns that we are focusing on today with this inquiry?

**Ms Stringer**—The PSA report found that there was no real competition in financial services and that, with the way the market is constituted, that sort of unfettered competition is not possible, it is actually an oligopoly. It still operates like that. Wallis found the same, which is why they brought in some reforms, and they are going to go some way towards levelling competition, but it will take some time—they are by no means comprehensive.

**CHAIR**—Was not the point of the Wallis inquiry and its recommendations, which are now mostly being acted on, to achieve just that result?

**Ms Stringer**—They will go some way towards achieving that result. In our judgment it is some small way, but we assert that it will take some time for those effects to be felt and also that they are not enough. One of the points I made in my introductory remarks was that banks do have a head start. They have built up a lot of capital, both in assets and in social capital.

**Mr CAUSLEY**—You were saying that there is no real competition between banks. Is it not true that banks really are only retailers of money? The cost of money would be similar to all banks and, really, it is only their efficiencies within their organisations that make them more competitive.

**Ms Stringer**—Firstly, I should say that I am not an economist.

**Mr CAUSLEY**—Neither am I.

**Ms Stringer**—This is why we have suggested the establishment of a bankwatch service. We would really like to know the definitive answers to these questions ourselves. Just from looking at what happens in the market, our feeling is that there is no real competition between banks.

**CHAIR**—I would just like to take up that point. If you look at some of the findings of the Wallis inquiry, they basically said that Australia had a reasonably efficient financial system—about middle of the range—and that if we had the most efficient one we could get, there might be savings in the order of 10 per cent in the overall cost of our financial services. Does that not indicate that we do have some measure as to how we are actually performing?

**Ms Stringer**—I have talked to a couple of people and I did not actually understand how the Wallis inquiry came to that figure, I am sorry. Again, all I can say is that I think we need some more hard information based on more rigorous research on these issues. Certainly, the public perception is that, in the

financial sector, competition does not work like it does with the local supermarket. You cannot compare the cost of the orange juice and decide to buy X brand next week. It looks like the people who get any flow-on benefits from competition are the more well-off consumers.

**Mr CAUSLEY**—I have a couple of questions for Mr Connolly. One is a general one, I suppose. You went into some detail about smart cards. We had some evidence before this committee in another inquiry from one of the major banks that in fact we are on the threshold of a cashless society, that it really won't be too long before we won't have coins or notes in our pockets, that we are really getting close to that. Surely at the core of that is the smart card, or something similar. If there was some identification, say, like a fingerprint, surely that is great security. Even if you lost your card or whatever, only you could access that and if it was cash available you should be able to buy from any outlet.

**Mr Connolly**—Cash is still king. There is no threat to cash at the moment. There is \$18 billion worth of cash in circulation at any one time. If all of us, the adult population of Australia, had \$100 on a smart card, that would be less than a billion dollars.

**Mr CAUSLEY**—Some of us might have a few thousand on a smart card. Surely that is a possibility.

**Mr Connolly**—It is possible, but the differences are that at the moment none of the trials of stored value cards have succeeded as a stand-alone product to replace cash. If you look at the practical way a smart card is used, you can see why the take-up will be slow. In Australia we don't have copper coins, for example, and one of the great conveniences of smart cards is having the right change. But in Australia that is not really a problem; it is not like America where you have thousands of different coins and they are difficult to identify. In Australia we have a wide range of merchants who are probably unlikely to take up smart cards quickly—local grocery stores, market stalls, co-ops et cetera; smaller shops—and it will really be the chains and vending machines that will be advantaged by taking smart cards.

**Mr CAUSLEY**—Most of them take cards now, even the supermarkets.

**Mr Connolly**—If you went to a place like Berrima, for example, which I guess would be relevant to this inquiry, you would find that cash is king in Berrima because, if you want to use a card or if you want to get cash out, you are limited to a few shops, and those shops which have cash out are charging a \$5 fee. I can see that cash has just so many advantages for a consumer over all the different electronic means and that cash will remain very popular for a long time. It is the most flexible paying instrument. It does not have a monthly or annual fee on it. The costs associated with cash are hidden from consumers, whereas the costs associated with a smart card are reckoned at around two per cent for every transaction. The ones that have been introduced in Australia have been unpopular for that reason. West Plus smart card costs \$15 for nothing, just to give you the card. It is a more obvious cost to consumers than using cash.

**Mr CAUSLEY**—There are lots of costs in cash at the present time. Who is carrying that?

**Mr Connolly**—As I say, I know that the costs are there and everyone does, but they are hidden to consumers.

**Mr CAUSLEY**—Someone is paying. There is no-one altruistic around and I'm sure the banks are not.

**Mr Connolly**—No, I am sure the costs are being passed on.

**Mr CAUSLEY**—I do not believe that technology is available yet but, if you had a fingerprint identification, isn't that with a plastic card a lot safer than a pocketful of money?

**Mr Connolly**—I think that the identification issue relates directly to the confidence of Australians in new technologies, especially technologies which are privacy intrusive. I think you would have a lot of problems introducing any biometric identification associated with the card in Australia, a country which has rejected biometric identification and national identification cards. Obviously the security issue is a major issue, but I do not think it is the only issue which is holding back the introduction of smart cards. If the merchants who accepted smart cards were more prevalent, that would be a much bigger plus than improving the security aspect.

**Ms Stringer**—We suspect also that the better forms of security such as biometrics, or a locking wallet, for instance—you can have a wallet that locks or a wallet that does not lock—will cost the consumer and again you'll have a regressive scale, so the less well off you are, the less secure your smart card will be.

**Mr Connolly**—The Mondex locking wallet costs \$350.

**Mr ANTHONY**—What is that?

**Mr Connolly**—It is basically a way of getting security. At the moment if you lose your smart card the money is lost and someone else can spend it. With the Mondex system, if you lose your smart card you can program the card to lock itself so that it would not open until you put it back in your Mondex wallet and you would know a special code. You have still lost the card but you have not lost the value on it.

**Mr ANTHONY**—But if you lose the wallet and the card you have gone anyway, have you?

**Mr Connolly**—Yes. That is basically the system. But again that is \$350 to the consumer, and that is a more obvious cost than the passed-on costs of cash.

**Mr CAUSLEY**—I was interested in your statements on privacy. I know that it is an issue that is raised quite frequently on many of these systems. Sitting here I was musing and thinking to myself, 'What privacy do I have now?'

**Mr Connolly**—There is no doubt that Australia lacks privacy protections, but when it comes to payment systems that is quite a sensitive one. People react quite strongly to not having some sort of privacy associated with payment systems. With bank branches it is a traditional thing. You tend to know the people there, and privacy issues are not so important there. As soon as the computer becomes involved, that raises the level of awareness of privacy issues amongst consumers. It is all about regaining confidence in these products by sending the signal that no, if your information is misused, the perpetrators will be punished or you will be compensated, et cetera. We do not have any sort of system like that in Australia, whereas in the



rest of the world it is a normal part of business practice.

**Mr CAUSLEY**—Finally, in your submission you state that bank charges have increased 100 per cent to some elderly people. Are you saying that there seems to be a discrimination on bank charges, that certain people are being charged more than others? What general comment do you have on bank charges?

**Mr Connolly**—It certainly seems to be the case that if I am a person with a term deposit with a bank or if I use a gold or platinum credit card or if I have a large scale loan with the bank or if my pay is being paid into the bank, I have a multitude of ways of avoiding fees and charges. If I am a person who has limited funds but enough to keep open a bank account, I am stuck with the fees and charges. There is very little that I can do to avoid them. The 100 per cent example comes from deeming accounts. Obviously the people we are talking about are people who would really suffer from such an increase in fees and charges. You would struggle very much to find any similar increase for people who have a more wealthy relationship with their bank.

**Mr PYNE**—With respect to privacy as an issue, when you refer to the Canadian privacy legislation that has been introduced, are you referring to legislation that covers all aspects of privacy in industry or is it specific for the financial industry?

**Mr Connolly**—No. What happened in Canada was very similar to the situation we have had in Australia, where there are privacy laws for government and there was a voluntary scheme for the private sector. That voluntary scheme everyone thought had been successful but, over the last couple of years, through the impact of changes in European and international legislation, and the introduction of Internet commerce and Internet communication, especially in Canada, they have decided that they cannot just put forward a voluntary code any more and it will be turned into legislation to cover the entire private sector, including financial services, Internet services, et cetera.

**Mr PYNE**—Do all the EU nations now have privacy legislation?

**Mr Connolly**—Every European nation has privacy legislation.

**Mr PYNE**—That covers business as well as government?

**Mr Connolly**—Yes. Hong Kong, Taiwan and New Zealand are three of our biggest trading partners. They are consistently rated as three of the most free and deregulated economies in the entire world. In fact, Hong Kong and New Zealand are No. 1 and No. 2 and yet they have privacy legislation in place for the private sector.

**Mr PYNE**—Do you envisage the government's privacy rules simply being applied to the private industry through legislation? Would you be happy with that result?

**Mr Connolly**—No. The current principles which have applied to the public sector do not quite fit the private sector modes of operation. They do not quite fit some new technologies, such as Internet commerce, but a new set of generic privacy principles is being drafted which is supposed to update the privacy principles

for the information age. So it would be a slightly different set of principles than government departments have been used to, for example.

**Mr ANTHONY**—In your submission you mentioned low income access to banking services, and that is the theme that is coming through. If you are on the *Titanic* and you are in the boiler room or in third class you will not get those banking services or you will but you will pay for them through extra fees and transactions.

You also talk about industry community service obligations. You comment that in the Wallis inquiry an undertaking was given—you might be able to elaborate on that—that certain banking products would be made available, particularly of DSS recipients and other disadvantaged consumers. You have said that you get the impression that these products were made available, but they haven't been advertised or you do not know what has happened to them. Could you elaborate on that?

**Ms Stringer**—I think we were referring there to the pressure put on the banks post the PSA inquiry into fees and charges. That inquiry said that a bank account is an essential service, and recommended that that be made available to all citizens. They suggested that the banks be encouraged to provide a basic banking product or a baseline banking product. In the year following that the big four banks did introduce what they said was a basic banking product.

Because there is no monitoring of banking products at the moment, we do not know, but we suspect, that the fees and charges on those products have been gradually increased. Also we know that they are not publicised. If you go into a bank and ask, 'What is the best bank account for me?' you are very unlikely to be told about their baseline banking product. They are difficult to access because the information is not there, and we suspect that the value of them has been eroded.

**CHAIR**—I think we were told yesterday that banks are now offering well in excess of 1,000 products. I think it may be a lot more than that. So there may be some difficulty in promoting them all.

**Ms Stringer**—Yes. It is the bells and whistles of competition.

**CHAIR**—Do you have any other comments you would like to make?

**Ms Stringer**—I would like to stress something a little more strongly that we did bring up—that is, all of these new products are not regulated or legislated. There are no consumer protections. If there is any loss, the liability for loss is with the consumer, whether it is for fraud, system failure, telephone banking, for instance, Internet banking or smart cards.

**CHAIR**—There is no protection?

**Ms Stringer**—No protection.

**Mr ANTHONY**—If you are doing banking over a branch counter, there is protection?

**Ms Stringer**—Yes, you are covered by the banking code.

**Mr Connolly**—If it is EFTPOS, you are covered by the EFT code.

**CHAIR**—You are saying you are not covered in telephone banking, smart cards and the Internet?

**Mr Connolly**—Yes, in Internet banking and electronic commerce and Digicash, there are no regulations in place. If you are looking for an idea of what the consumer movement believes should be in place, we do have a set of best practice guidelines for stored value cards, which are contained in the smart card kit. They are only one page long. It is probably not often that you see a set of consumer demands that is only one page long; it is not the uniform credit code, you will be pleased to know.

That is a good starting point. It is a minimum set of protections that should be in place when a new technology is introduced, just to level the playing field so that there is protection for all products. I think you would see a much higher degree of confidence in these products if they had those protections in place.

**CHAIR**—Thank you for that. I would like to thank all witnesses who have appeared before the committee today.

Resolved (on motion by **Dr Southcott**, seconded by **Mr Anthony**):

That this committee authorises publication, including publication on the parliamentary database, of the proof transcript of the evidence given before it at the public hearing this day.

**Committee adjourned at 12.54 p.m.**