HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON FINANCIAL INSTITUTIONS AND PUBLIC ADMINISTRATION

Reference: Regional banking services

CANBERRA

Thursday, 12 March 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.

The inquiry will focus on how individuals and small businesses in regional Australia will access banking and like services in the future, given that the rationalisation of the traditional bank branch network is forecast to continue. The Committee's deliberations will also extend to Recommendation 96 of the Wallis Report (that governments expedite 'the examination of alternative means of providing low-cost transaction services for remote areas and for recipients of social security and other transfer payments'). The inquiry will not examine the provision of investment services, superannuation or insurance.

WITNESSES

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON FINANCIAL INSTITUTIONS AND PUBLIC ADMINISTRATION

Regional banking services

CANBERRA

Thursday, 12 March 1998

Present

Mr Hawker (Chair)

Mr Albanese	Mr Martin
Mr Causley	Mr Mutch
Mrs Gallus	Mr Willis
Mr Hockey	Mr Wilton

Committee met at 10.17 a.m.

Mr Hawker took the chair.

CHAIR—I declare open this hearing of the House of Representatives Standing Committee on Financial Institutions and Public Administration inquiry into alternative means of providing banking and like services in regional and remote Australia to those currently delivered through the traditional bank branch network. Since deregulation of the banking industry, banks have responded to pressures of competition by introducing measures to reduce costs and maximise profits. One of these measures involves the downsizing or closure of many branches in rural and regional areas.

The loss of traditional branches and banking services has a significant impact on individuals, businesses and communities concerned. However, many communities have rallied and are actively involved in finding and establishing alternative ways of accessing financial services. The aim of this inquiry is to assist in that process.

GENOVESE, Mr Mark, Operations Manager, Credit Union Services Corporation, 51 Druitt Street, Sydney, New South Wales 2000

LAWLER, Mr Luke, Senior Adviser, Public Affairs, Credit Union Services Corporation, PO Box 3349, Manuka, Australian Capital Territory 2603

TAYLOR, Mr Dave, General Manager, Public Affairs, Credit Union Services Corporation, PO Box 3349, Manuka, Australian Capital Territory 2603

CHAIR—Today we have before us the Credit Union Service Corporation of Australia, CUSCAL, and it is owned by and provides services to 227 member credit unions throughout Australia and plays a role in representing and promoting the interests of the credit union movement and credit union customers. The credit union movement is an important part of Australia's financial system with approximately 3.4 million members. CUSCAL has played a significant role in regard to the provision of financial services to rural and remote areas through its participation, along with the Commonwealth government, in the successful CreditCare scheme—and through the CreditCare scheme over 30 new credit union branches have opened in towns where the banks have closed.

I do not wish to take up any more time as the committee has a significant number of matters to canvass with CUSCAL. I welcome Mr David Taylor, Mr Mark Genovese and Mr Luke Lawler from the Credit Union Services Corporation 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 your submission, numbered 51, and it has been authorised for publication. Are there any corrections or amendments that you would like to make to your submission?

Mr Taylor—No.

CHAIR—Would you like to make an opening statement before members begin questioning?

Mr Taylor—Yes, we would, and it will probably be no more than five to 10 minutes. We certainly appreciate the opportunity to appear before your inquiry, and I would like to stress at the outset that we are here and that we have made a submission to the inquiry because we are very genuinely concerned about the difficulty that some people are having in remote and rural areas in accessing basic banking services.

I should also note that we are here in a dual capacity. Credit Union Services Corporation, as you have said, is the body responsible for representing Australia's credit unions and their 3.5 million members. My colleague Mark Genovese is an employee of Credit Union Services, but for 80 per cent of the time he is the manager of the CreditCare project.

CreditCare is a nationwide cooperative project which is jointly funded by Credit Union Services, the Commonwealth Department of Primary Industries and Energy and the New South Wales government. It is a project designed to help those in regional and remote communities gain access to banking services. Therefore, Mark is here today really as the representative of those communities that we are seeking to help through CreditCare. He will certainly be able to answer specific questions that the committee members may have about the operations of CreditCare.

It must also be emphasised, though, that CreditCare itself does not provide banking services. It can only assist communities with the help of financial institutions which are committed to extending their services and judge that it is commercially feasible for them to do so. Credit unions are very strongly committed to meeting the financial needs of all Australians. This is a fundamental plank of the credit union philosophy. This is something which perhaps distinguishes credit unions from other financial institutions in the marketplace.

It is because of this commitment that credit unions have helped, and been prepared to help, restore financial services to 34 rural communities, mainly in New South Wales and Queensland. These achievements have been facilitated by CreditCare, but they were ultimately only possible because of the commitment of those institutions involved. But these credit unions also found that it was commercially feasible in these cases for them to extend their services to the communities in need. This will not always be the case.

Credit unions operate in an extremely competitive national market. They face the same fundamental cost pressures as banks, and they must consider the needs of all their members. It would be self-defeating, in our view, for credit unions to incur excessive costs by assisting some of these areas only to find that those costs reduce their capacity to compete in other areas of their business. Credit unions, therefore, do not support imprudent cross-subsidisation to achieve an extension of services to these communities. We think credit unions in the future can provide significant and perhaps the only genuine competition for banks in this country, and we certainly want to look to that long-term future.

As mutual organisations, credit unions are concerned only about their members, not about making profits for external shareholders. This may well mean that, when credit unions consider the commercial feasibility of extending their services, they do so seeking a lower profitability hurdle rate than perhaps the banks would. Credit unions may also take a longer term view than others and be willing to adopt a more innovative approach. We certainly think that our experience has shown that we do act in that way. But there is a hurdle rate nonetheless as the prudential requirements on credit unions are just as costly—in fact more so than those that are applied to banks.

That really brings us to the main point that committee members would have seen we have emphasised in our submission. That is, credit unions at the moment are trying to compete in that very difficult marketplace, effectively, with one hand tied behind their backs. We do not believe competition will solve everything—and I will turn to that point in a moment—but there is absolutely no doubt that the regulatory changes that we are seeking will help credit unions compete more effectively. They will help us achieve the required hurdle rate more often, and that means they will also help those in regional and remote communities.

I do not want to dwell in detail on the proposed Wallis reforms, although, of course, they may come up in questions, but I will just mention a few things. Credit unions currently operate under a very complex, costly and outmoded state system of regulation. There are numerous restrictions which prevent credit unions from competing effectively with banks. We still cannot issue cheques in our own name, notwithstanding the commitment on all sides of the parliament for those reforms to be put in place. We cannot provide to any reasonable amount commercial loans to small businesses or farmers. We have a regulatory system which most in the community are totally unfamiliar with.

By contrast, banks currently have a privileged place in our regulatory system. They are regulated by the Reserve Bank, and so people think they are special. People think they are safer than credit unions, despite what the informed may understand. So, despite the users of credit unions being extremely satisfied with the services they are provided—and we see this in many surveys that we do and in independent surveys—some people choose to stay with other institutions regardless of their level of satisfaction with them. Banks will retain what is effectively a monopoly over rural lending, for example, because there is effectively no-one else to provide the necessary competition at present. Credit unions have not developed expertise in that area simply because the regulatory framework has put this out of the question.

In our view, the Wallis reforms will provide the foundation to address these competitive imbalances. They will provide a single regulator for all institutions and remove the arbitrary and unnecessary restrictions currently placed on credit unions. We, therefore, urge the committee members not only to give their strong support to the Wallis proposals but also to seek their rapid implementation for in our view the new regulatory structure should be put in place as soon as possible and should be a priority for all parliaments.

In seeking these changes and some others which are identified in our submission, we do so recognising that this will not provide a total solution to the needs of those in rural and remote areas. Improved competition will help significantly but, ultimately, there will be some areas in which it will not be feasible for a single institution to establish adequate banking services. This situation is actually little different from that which applies to other services and facilities, whether they are government services or basic services such as petrol, telecommunications, transport and so on.

In these instances we think there are still some very valuable things that can be done. There are opportunities for the private sector to work together with governments, and perhaps with other non-banking organisations, to explore ways of providing a range of services under cooperative arrangements. This type of aggregated service delivery is likely to be the best solution for many remote communities. For example, in Dirranbandi in south-west Queensland, the staff of Electricity Credit Union are being trained to provide government services, including the registration of cars and boats and the receipt of public housing rents, and they are looking at additional services. Mark has been heavily involved with that.

CreditCare has been exploring that concept of shared services for some time and in a number of areas. The Queensland government has implemented what it calls its government agents program, which is already working well in some communities and which is really about getting a one-stop shop agency arrangement for a variety of different services.

In summary, we are seeking some substantial reforms to the regulatory framework. We think that they will help significantly but will not provide the total solution. We think some of these cooperative arrangements can work where perhaps it is not commercially feasible for a single organisation. But we also think that it would help enormously if those institutions which were the last to leave a town would give some more notice that they were doing so. We have tried to talk with them, and Mark and his people have also, to try to get some more cooperation there and some more early warning so that we can work together with the communities through CreditCare. We think that at least three months would be a reasonable notice period to enable some of these other initiatives to be put into place.

CHAIR—Thank you for those very comprehensive opening remarks. On the regulatory issue, I think the government is moving down that path, as you are well aware. The Treasurer is expected to introduce part of that very shortly. So I do not propose to really canvass that because from your remarks I think you are saying that, when that is in place, that goes a fair way down the track of what you actually want.

Mr Taylor—I will just comment briefly on that, Mr Chairman. That is true, and we are very appreciative of the commitment shown by the government and the opposition. However, there is a significant issue at the moment about the timing of the implementation of these reforms. It appears that it may well be the case that the major reforms will be implemented later this year only for banks, insurance companies and so on, with a view to bringing the state based institutions in some time after 12 months. We are very concerned about that potential delay.

CHAIR—The committee hears what you are saying. If that problem arises, we will be dealing with that as a separate issue to this inquiry. In your opening remarks you talked about what is commercially feasible and the fact that credit unions face the same fundamental cost pressures as banks, could you just elaborate a bit on that? Does that suggest that in operating a branch you cannot actually get any cost reductions over and above what the banks' operations are, or lower profit margins or whatever?

Mr Taylor—There are a few aspects to that. The first is that credit unions have overhead expenses which, in some cases, are significantly higher than banks because they are not able to secure the economies of scale that banks can. The major input to financial intermediation is obviously the cost of funds, and the cost of funds for credit unions is marginally higher than it is for banks. We are closing that gap all the time, but it is a very competitive market. So the cost of getting those funds in to lend them out is basically either the same as banks or potentially slightly higher.

We also face the same prudential regulatory requirements. So we must be able to get a sufficient return on assets to provide for the capital that we are required to hold under the legislation we have at the moment. So there are regulatory costs, and, obviously, to ensure a prudent operation, you have to meet those requirements. There are the costs of your inputs. When we look at the figures overall, we find that cost to income ratios of credit unions are in fact higher than banks at the moment, and we are pursuing a number of projects to try to get that down.

That is looking at it overall. We have found, though—and Mark may want to add something here—that, when you start looking at moving into these communities, there are some more innovative ways in which you can do it which can reduce your costs—perhaps previously the bank had a full branch, expensive overheads, full-time staff. The credit unions, through CreditCare, have worked out ways to deliver those services more cheaply and more cleverly by using fewer staff, shared premises and so on.

CHAIR—Could you just expand on that point because I want to get a feel for what the relativities are vis-a-vis what you are doing and what the bank would do?

Mr Genovese—We have visited around 136 communities now that have lost their last bank over the last three years, and we have nine people working full time on this problem. So I would like to think that it should be responsible for us to have a reasonable assessment of what makes things tick out there.

I would like to firstly state that I have not been in one community yet where the bank is not making money. So it is clear to understand that the banks are making money in all these branches. The difficulty is that they are not making enough money to satisfy their appetite—and their appetite is getting bigger and bigger and bigger. They are making decisions to take the resources out of towns like Stratford and put them into areas like Melbourne, offshore or whatever, because they can get a higher return on assets. That is the fundamental principle of their decision making.

So, when we go into a community, we are not going to an area where the banks were losing money—they were making money. The challenge for us is to try to convince the community to work together and transfer all their business over to the credit union's operation so then the credit union can run in a commercially sustainable manner. For us to be able to do that properly, we need to be able to offer the same services and products that the banks have been offering.

The other problem that we face is that, when we go to the community, we have big public meetings and people are very stirred up about this. In a lot of the communities that we go into, you can feel that they are going to do something about it. When the credit union goes in there, the mums and dads transfer their banking business into the credit union, which is great, but then we run into difficulties when we try to service the rural sector in those communities because we do not have the capacity to take on the loans of the farmer, if you like, in that area.

The banks are very clever. They pick the cream of the market. They will go to the farmers in the area and say, 'Listen, we know we are moving out of town but, if you stay with us, we'll reduce your margin by half a per cent or a per cent to stay with us,' or, 'We'll put on a mobile manager and they will come and visit you once a month.' We are finding that, with the legislative problems we have as well, we cannot offer a competitive product to those farmers. So we are going in there and getting the mum and dad banking, the business that the banks do not want—the $1,000 in a savings account, the cheque account, the ATM card, the small personal loans or whatever they might have. We are trying to provide those sorts of services with a similar type of service level without getting the big licks of business that we need to make the thing commercially sustainable in the long term.

To overcome that problem, we have looked at innovations—working with local councils, state governments and community organisations. We have credit unions running out of all those types of organisations. We are sharing premises with local government. In Dirranbandi, we are sharing premises with the drapery—half is the drapery; half is the credit union—and providing state government services through that outlet.

So we have decided to look at aggregation of services to get as many strategic partners as possible to join with us and come up with a solution that provides communities not only with financial services but also with a range of services which will overcome a number of problems that they face. By directing all those energies into the one location, there is a chance that sustainability will be achieved. Institutions setting up a stand-alone organisation in small rural towns with communities of 500 to 1,000 people, in my view, satisfies the problems of maybe 20 per cent of the community—the other 80 per cent will not be looked after.

CHAIR—One observation from your comments probably explains why you are not going to be given much notice when a bank branch closes. What better way to keep customers.

Mr Genovese—Exactly.

CHAIR—I still come back to this point about the costs. You say that when a bank closes a branch it is probably still profitable.

Mr Genovese—No question.

CHAIR—What level of returns—I think you mentioned 17 per cent in your submission—

Mr Genovese—That is typically what the banks are looking at as a return on assets.

CHAIR—What level of return can you see as sustainable from the perspective of credit unions?

Mr Genovese—We measure profit differently from the banks. Most of the credit unions in small rural towns that we deal with want to break even. That is, they are happy to stay in that town if they have a revenue neutral situation because they have a commitment, through their cooperative nature, to service as many people as possible. In that way, they are not putting any onerous commercial burden on existing members. That is basically what we are looking after, and that is what credit unions have typically said to us. If we can put a proposal to them that it will not cost them money to provide that service, they are happy to do it.

CHAIR—Can I just get some idea of the relativities? You have mentioned that your cost structure in many cases is probably higher.

Mr Genovese—Yes.

CHAIR—What level of customer base can you service compared to a bank branch? Is it lower or the same?

Mr Genovese—It is very difficult to pick a number because it comes back to the community. I will give you an example which is not far from here. Delegate has 400 people. We opened a branch there and there are $3 million in deposits from 400 people. The average saving per member is something like $8,000.

Mr WILLIS—Where is this town again?

Mr Genovese—But we might go into a town with 1,500 and not achieve the same result. It comes back to the communities themselves—the capacity for them to get on their feet, fight for their rights and help themselves. That is what we are trying to do. It is very difficult for me to tell you specifically what size community. I can tell you in a business sense that most credit unions would want around $3 million to $4 million in deposits and in loans for a typical type of operation to break even, given that they have branches that are sort of being subsidised to some degree.

Mr HOCKEY—How do you know that the banks are making money?

Mr Genovese—There are a couple of ways we can measure that. We have three staff who work for us who were all senior executives with banks previously who were actually responsible in those types of areas. Working in our industry we get to understand what makes things tick in other organisations. Also, we get told by the banks the type of business they have within those branches. We know what we need to make money in those branches.

Mr HOCKEY—Yes, but that is the branch making money. That is not necessarily the bank making money out of that branch. Banks provide deeper services than simply what comes out of the branch at the local level. They offer a whole range of products that you do not offer.

Mr Genovese—You will find that the banks actually ask each branch to be a separate profit centre. That is, they are judged separately, they get head office costs allocated to them, et cetera. We do exactly the same thing. We know, if you like, the drivers that operate that will push operating costs. So we know what it costs us to provide a service of that level in that community, what type of business we need on both sides of the balance sheet to make money and to break even. We understand how that works. The figures I mentioned earlier are about the numbers that we need, and the banks are about the same.

Mr HOCKEY—So you are telling us that banks are going out and closing profitable branches?

Mr Genovese—Of course they are. Have a look at any urban area in Sydney, Melbourne or Brisbane. They are closing branches—

Mr HOCKEY—I find it hard to believe.

Mr Taylor—Can I just comment on that, and Mark mentioned this briefly before, the bank is hoping to retain the profitable customers and get rid of the unprofitable ones. One clear way of doing that is to close the branch. You do not necessarily lose those profitable loans. So you are cutting costs which actually reduce your profitability. So why would you not be motivated to do that?

Mr HOCKEY—Because you run a risk of losing the profitable people.

Mr Taylor—Not when there is no-one else who can compete in relation to rural lending, which is really the only area out there that is making any money.

Mr Lawler—The banks actually say in their submission that they tend not to lose customers. That is what the ABA says in its submission to this inquiry.

CHAIR—We had an informal briefing a couple of weeks ago and we were told that 90 per cent of customers stay.

Mr WILTON—Can you tell us about the nature of the partnership you would like to see between the government and non-banking financial institutions in order to help retain services especially in rural areas?

Mr Genovese—The type of thing we are talking about is perhaps credit unions providing services like we are for the Queensland government. For instance, if you pick a town like Delegate, the credit union has a structure there—a branch and staff. They could start providing local, state and federal government services, information services, bill paying services, et cetera, and there would be a fee for that service. That means that you are bringing additional revenue in, providing additional services for the community and increasing the long-term sustainability of that operation.

So when we visit all those organisations, whether they are state, federal or local government or private enterprises that have a commitment to provide some sort of service to that community, they all agree with the concept and they would like to participate in that sort of process. The challenge we have is: how do we coordinate that? Perhaps a role the government may be looking at playing is being active in pursuing that strategy and having people like us involved in providing advice, et cetera.

Mr WILTON—Based on some form of subsidisation?

Mr Genovese—No, it would be a fee for service. That is, if you were going to get your service supplied in one of these rural communities, you would pay the organisation, as the Queensland government pays the credit unions in Queensland, the same fee you would be paying anybody else to provide that service in a community. So it is a commercial relationship they have.

CHAIR—Can you give us an idea of fees? For example, I know that social security recipients who have to draw money through a post office agency are now finding they are paying $1.50 for each withdrawal. Are you talking similar fees?

Mr Genovese—No, the fees I am talking about would be income generated by the credit union for providing the state, federal and local government services to the community. Whether the service provider charges the community for its service is something on which it would have to make a decision.

For instance, none of the services that we provide on behalf of the Queensland government, except for things like licences, has a cost associated to it. There are no additional costs to the consumer there. It is just as if they were going into a government building in Queen Street, Brisbane to do the same transaction, but they are doing it in Dirranbandi, Herbert, et cetera.

CHAIR—I just want to get this clear. If I was receiving social security payments and I wanted to take them through that agency, what would the fee be?

Mr Genovese—Every credit union has independent fees, charges, loan rates, savings rates. I think it would be safe to say, though, that, generally, credit unions charge less in fees and charges than any other institution because, again, going back to our structure of ownership and mutuality, we are not trying to make profits out of those. It is more a user pays principle.

CHAIR—Could you give us a typical fee for, say, if I wanted to withdraw $100?

Mr Genovese—To use the example of pensioners, most pensioners are exempt from fees with credit unions, so they do not pay anything. We have 227 credit unions who all have a separate fee structure. Children and pensioners are exempt. Some credit unions still do not charge any fees.

Mr Taylor—We did do a comprehensive survey of credit union fees in the context of ACCC's inquiry into this matter. There has been some updating of that, and we keep pretty closely in touch with credit unions that are introducing new fee structures. There is significant variation. There are still some credit unions that charge virtually no fees for anything. That situation, however, is changing fairly rapidly because of the other cost pressures, and we are finding credit unions are having to charge more for these transactions services than they did in the past.

Mr ALBANESE—I was really interested in exploring Mr Genovese's evidence that banks are closing up profitable branches. It will not be of surprise to you, I am sure, that that is contrary to both the direct evidence and certainly the implied evidence of the banks. They are saying that that is not the case. I would be very keen to get on evidence any specific examples, not necessarily now, though. The committee would be happy to receive any information on that afterwards because I think that is a critical issue. The core of the public debate out there is that people do not understand how a bank can move out and you can move in and operate. It does not seem to make sense, unless what you are saying is correct. So, in terms of evidence, I am just interested in exploring that a step further.

Mr Taylor—If I could just start on that one. Clearly there are many different ways you can measure your costs and measure your profitability. There are different ways that you can put costs in or take them out, depending on which formulas you use. We certainly do not purport to know exactly what each bank does.

If I could just clarify what Mark was saying, and he may want to follow-up, from the experience of our people through CreditCare—Mark's people going into these areas and getting an assessment from the community of the business that is there and the business that they in fact had with the bank—they appear to have been operating profitably. It could well be that that bank is allocating substantial head office costs through to all these branches and other costs that we do not know about. But, when looking at the business and comparing it with the way in which it would be provided, the fundamental business on both sides of the book and the processing of transactions, I think Mark is finding that these look like profitable operations. Whether it is profitable enough is another matter.

Mr WILLIS—Firstly, Mr Taylor, you said that there were 34 communities that had had financial facilities restored by credit unions. Your submission says 36. Is that a deliberate change?

Mr Taylor—I was aware of the difference in the figures, and I should elaborate. There have been 36 communities, and I was making a reference there in particular to the role of credit unions. I should point out that there have been two other communities—again, Mark might wish to elaborate—where the service has been extended through, in one case, a building society and, in one case, a bank. So it is 36 in total through CreditCare.

It is important to emphasise the point that CreditCare is not about just credit unions. CreditCare is there to work on behalf of communities and to use whatever mechanisms are available. It just so happens that, in 34 out of 36 cases, it has been credit unions that have been able to provide some assistance, but certainly CreditCare is not limited to that.

Mr WILLIS—You say that CreditCare has contacted 130 communities but 36 have had the facility restored. If you are saying, Mr Genovese, that wherever the banks have closed branches they have been profitable, why have you not been able to restore services in the whole 136?

Mr Genovese—The difficulty is that the credit unions generally do not have the capacity to take up the slack that is out there from bank closures. We have credit unions that have strong bonds of association, like Qantas, Commonwealth and what have you. They are not in the business of opening branches in rural towns. Historically, credit unions have not had a strong presence in rural Australia. It is a completely new market to the movement. So, if you like, it is very difficult for us to convince more than we have to go out into a new market, considering the environment they are working in at the moment with squeeze margins, et cetera.

CHAIR—I am sorry. We will have to adjourn briefly because of a division in the chamber. We will be back shortly.

Proceedings suspended from 10.50 a.m. to 11.08 a.m.

CHAIR—Before the suspension, Mr Willis was asking about numbers.

Mr WILLIS—Perhaps you might like to give that answer again and we will pick it up from there.

Mr Genovese—The capacity for the credit union movement to take up the slack that has been left does not allow us to meet all the demand that is out there. As a movement we just do not have the capacity to go into all those communities. Whether they are profitable or not is not the issue; it is the credit unions having the capacity to consider those issues and make a decision to go into rural areas for the first time. It is a strategic decision for a lot of these organisations. The point needs to be made that the movement as a whole in its current form, and considering the restraints that we have on us when we go into these places, does not have the capacity to satisfy all the needs of these communities. That is why I made the point earlier that we have to look at innovative ways to come up with solutions. We do not pretend to be able to help all communities. It is impossible for us to do it.

Mr WILLIS—You are saying basically that there are profitable opportunities in those towns but you are not picking them up because of lack of capacity rather than lack of business opportunity.

Mr Genovese—Yes. We just do not have the capacity as a movement for credit unions that have an interest in maybe going out to those places to take up 130 locations. It is impossible for us to do it. I think we have done reasonably well with the 34 that the credit unions have taken care of. We could probably do another 20 a year, and we will satisfy 20 communities a year. Remember that when we go into these communities under the current conditions we cannot service the agriculture sector, which would attract more current credit unions into those places. It is very difficult for us to be able to lend to any farmers because of the restrictions that are placed on us through our current prudential standards.

Mr WILLIS—Would you have done any of what you have done in terms of restoring facilities without the CreditCare program, which has been funded largely by government?

Mr Genovese—The answer is yes. Some credit unions were actually doing it beforehand but certainly nowhere near the number now. It would be true to say that the initiative has enabled credit unions to look at the matter more seriously because we do a lot of leg work for them. We go out to the communities, we work with the communities, we learn how to pronounce the names of these communities, and we go back to the credit union and do a sell job on behalf of the community. I would suggest that 20 per cent of what we have achieved would have been achieved without the efforts of CreditCare.

Mr WILLIS—So 80 per cent as a result of government funding.

Mr Genovese—Yes.

Mr WILLIS—What about for the future? You have funding for CreditCare for the next couple of financial years. Do you see an ongoing process of you being able to restore financial facilities in towns? Will you be able to keep up with the banks' reductions?

Mr Genovese—The answer is yes we will continue to be able to help communities and no we cannot keep up with the banks. Unfortunately, I think it is going to get worse before it gets better. The towns are getting bigger—that is, the number of people who live in these communities. When we first started CreditCare they were towns of 400, 600 or 700 people. Now they are towns of 1,000, 1,500 or 2,000. The threshold and the size of the communities are getting bigger. I do not know when that is going to stop.

Mr WILLIS—Doesn't that make it easier for you in terms of having a profitable business situation to operate if there is a bigger town with no facilities?

Mr Genovese—No question of that. But we come back to the earlier point about the capacity for us to take it on.

Mr WILLIS—Roughly what rate of restoration do you think you would be capable of doing in the next couple of years? You have done 36 in two or three years. Is that the sort of rate we can expect in the future?

Mr Genovese—Our objective is that we do 12 a year. We are very confident we will certainly be able to do that. We hope we can do more.

Mr WILLIS—At that rate obviously this is making a minimal impact on what the banks are doing in terms of withdrawing services.

Mr Genovese—Exactly. One of our responsibilities we see in CreditCare is one of innovation. We are working through that aggregated approach I talked about. We are looking at working with the Department of Primary Industries and Energy through the AAA program. We are putting a lot of time and effort into looking at different ways of coming up with a solution that takes care of more communities than we can help. No question of that.

Mr CAUSLEY—Mr Taylor seemed to be arguing to me this morning in his opening remarks that it was very difficult for credit unions to take up the space where banks have moved out. I think he was arguing too that really you wanted to be on the same playing field as banks, that you wanted the same standards as banks—in other words, you were replacing the bank in that area. We have had evidence from banks that an area such as cheques, as Mr Taylor mentioned, is a very expensive area. That is one of their biggest costs in banking. Do you think if you expanded into these areas then you would be no different to banks, that you would find it very difficult to service these small communities?

Mr Genovese—The fundamental difference that we have is that because we are cooperatives and mutuals we have only the one master—that is, the member. The member is the customer and the owner. We do not have the third party, which is the shareholder who is requiring us to return their maximised dividends on the investment they have. Because of that, typically the way we treat our owners and members has historically been different. As Dave mentioned, in recent surveys our customers, our members, reflect that.

Cheques are an issue. We are actually paying a premium now with cheques because we have an arrangement with the National Australia Bank. The only way we can issue cheques to our members and for our members to have chequebooks, if you like, is to have a commercial arrangement with the NAB. You can imagine how favourably they treat us when we come to negotiate fees and charges on that arrangement. If we can do it in our own right we can substantially reduce the costs of providing cheques for our members.

CHAIR—That will be happening?

Mr Genovese—Yes, definitely, and we are looking forward to it.

Mr CAUSLEY—The big competitors in this industry are going to have economies of scale. That is what is going to force down the prices that you pay for money or services or whatever. You will not necessarily be able to compete with that. If you are going to go into these smaller communities, you would have to charge an extra fee. Wouldn’t you have to charge higher rates?

Mr Genovese—Credit Unions get economies of scale through the Credit Union Services organisation. We aggregate a lot of services—that is, the 227 credit unions do not act independently with all the things they do. For instance, all their liquidity management is run through our organisation. All the information technology requirements are run through our organisation. Credit Union Services are a substantial organisation. We have 600 employees and we aggregate most services, which gives us the capacity to produce economies of scale even for very small unions within the movement. Some of the most efficient credit unions in Australia are the very small ones.

Mr CAUSLEY—Did I hear a while ago you said that the catchment numbers are around 1,200 at the present time to have a viable business? Is that what you said?

Mr Genovese—No. We cannot put a number on it. What we can say is dollars and cents on both sides of the balance sheet. I mentioned that a figure of $4 million on either side gives us a break-even position with a typical type operation with a couple of staff, an office, et cetera.

Mr CAUSLEY—What size community would that be?

Mr Genovese—Delegate with 500. Bulahdelah with 1,200.

Mr CAUSLEY—It depends on what you get.

Mr Genovese—Exactly. It depends on the community and how much business they are prepared to transfer.

Mr CAUSLEY—You do lay it on the line, though, don't you? I have had a couple of experiences of this—I am not condemning it. You say to the community, 'If you want us here, then you better use us.'

Mr Genovese—Exactly. Use it or lose it—and they say that to themselves. These towns are used to fighting for things. When we go in there we try not to raise expectations. All we say is that we are providing a service for them that allows them to help themselves. That is all we can do. Some communities grab hold of that. You go to a public meeting and you can feel it in that meeting they are going to do something about it. Other towns are a bit lethargic and they have probably given up the fight to some degree and say, 'Oh, well. That is just another service we have lost. We tried to save something else and it did not work.' They are not organised. They do not have what we call movers and shakers. Communities that have a mover and shaker in them are the communities that do something for themselves. What we provide for them is the capacity to do the commercial analysis, which they do not have the capacity to do, that is necessary to put in front of a financial institution.

Mr CAUSLEY—The banks have said to us that they are being driven at the present time by competition. They have competitors out there that have low overheads. They are new competitors in the field. They do not have the baggage that the old competitors have got. They have modern technology so they can therefore provide their services very cheaply and drive the price down, so they are being driven by that. They are also saying that the new technology is going to advance at a rate of knots, that probably within a few years we will not have cash; we will have smartcards and telephone banking, et cetera. How are you going to compete with that?

Mr Genovese—We would agree that margins are being squeezed, that competitors are putting pressure on organisations. We feel that as well. We would also agree that they have every right to make a commercial decision and close those operations. That is their right to do that. Technology will fill a void. There is no question of that. If you go into a rural town, again, in a public meeting and start talking to them about smartcards and Internet banking—those types of facilities that will take care of the needs of the community—you are going to get laughed out of town.

We think there is a timing problem here. If the banks introduce this new technology, educate and train people how to utilise it, then they withdraw their branch, then there is no problem. The community is accepting of it. Communities are fully aware and accept that technology is something for the future. They understand that the issue of cross-subsidisation is a not around anymore and everything has to be looked at individually.

What is not understood is that these people have supported the organisation for 80 years through generations and then they get three weeks notice and the organisation disappears. That is what upsets the communities that CreditCare represents, more than anything else—lack of education, lack of knowledge in relation to the decision making process, lack of helping them with the transitional period. Whether it is ANZ, Westpac or anybody, the community says, ‘That is our bank.’ They do not care what it is called. It has probably had three or four different names in the last 80 years anyway. So they feel very emotional about it.

They understand technology. A lot of farmers who we meet are right on the cutting edge of technology. Our organisation and our industry is on the cutting edge of technology. We are into Internet banking. We have people working on smartcards. But our people tell us not to get too excited about these things because, while they are available now, by the time they get put into the marketplace and people accept them it is going to be years and years away. We have to be prepared. We have to be able to offer services like that to our constituents in rural areas, but it is not going to happen tomorrow. It is down the track.

Mr CAUSLEY—I accept that argument. But, in the gap, you say that you can provide those services.

Mr Genovese—That is what we are trying to do—where we can, go in and help those people. What we are saying is that they are not ready for that technology yet. They fundamentally need assistance and a service. We will go in there now and over time, if that technology gets to a stage of development that it services their needs, then we will provide the technology and there might not be a need for a branch.

CHAIR—If you wanted to pursue this business of new technology and the range of things that are there, including Internet banking and so on, at what rate could you switch a community over if you said that you were going to provide the education and the backup support? You said ‘years’ a minute ago. If you really wanted to push that along, what sort of time frame would you be looking at?

Mr Genovese—If the technology was there and it was reliable and usable, a pretty intensive period of time could be spent in a town and you could get the majority of people, not everyone, in that town utilising and understanding it within two or three months. If it was intensive and you held information nights, visited people, went to the retirement homes and nursing homes, you could probably do it in two or three months. The problem is that the technology is not in a position to cater for that need yet. The costs associated with it are too high. We have been talking about smartcards for 10 years. Who uses smartcards? Nobody.

CHAIR—Other things like EFTPOS and giroPost are available. Which ones of those would you say could move in straightaway?

Mr Genovese—EFTPOS is already in all the towns we go into and giroPost is in most of the places as well. The problem is that they do not satisfy the overall needs of a community. They take care of cash in and cash out need for the mums and dads. They do not help small business. They do not stop people going to the larger centre to do their shopping. They do not stop the economic downturn in that community when they lose what is really a pillar within the community—a bank or a financial institution that has been there. That is the problem. People have grown up with that bank there. They have provided infrastructure around that bank as one of the essential services. They have relied on it and all of sudden it is gone, and no EFTPOS machine can satisfy the needs of a community.

Mr MARTIN—One of the things that has been put to us is that in small rural remote communities it is normally the bank that is the last business that folds and moves out, that they are not the first to go. If there is a downturn for whatever reason, small businesses close and therefore that adds to the cost pressure of maintaining a building with staff and so on. So it has been put to us, as I say, that they are one of the last to go. Is that the experience you have found from talking to those 130-odd communities?

Mr Genovese—There are certainly examples of that. There is no question of that. I would not suggest that banks are the first to go in a lot of these places. I would also argue that they are not the last to go. I will give you the example of Magnetic Island. That is one of the most popular tourist places on the north coast of Queensland. Small businesses are doing very well, booming, and they lost their last bank eight months ago. You cannot tell me that is a town that is losing their facilities and is heading downhill. That is a town that is doing very well.

Mr MARTIN—Yes. But, by the same token, the Queensland Credit Union went out there and has taken the place of that bank facility on Magnetic Island.

Mr Genovese—They worked with us through CreditCare to get a credit union into that town.

Mr MARTIN—That is right, and that is there now. Having been there two weeks ago and spoken to the small business people on Magnetic Island, they say that the credit union is doing a good job for them but they are also resentful of the fact that the bank on the island itself had shut down and so on, notwithstanding the ferry service to get them across to Townsville.

Mr Genovese—You have seen it first-hand.

Mr MARTIN—Indeed I have.

Mr WILLIS—How important is it in terms of the capacity of credit unions to do more in the area of restoring financial facilities for the reforms that you make a strong pitch for here—taking action on the right to issue your own cheques and the introduction of all the Wallis reforms? I can see they are going to make a difference to the performance of credit unions overall and be beneficial to you as a movement. But is it going to make any real difference at all to the capacity of the credit union movement to restore financial facilities in towns where they have been taken away?

Mr Genovese—In a practical sense my view is and the view of my team would be that the area that has most potential is the area of rural lending. At the moment credit unions can only have a maximum of 10 per cent of their loan book in commercial loans and that incorporates rural lending.

Mr MARTIN—That incorporates small business as well?

Mr Genovese—Small business—all commercial loans. The farmers are the people who feel strongest about their community. They will come up to us and say, 'We want to transfer our $300,000 or $600,000 loan. We have 60 per cent equity in the property. It has been a family property. We want to give that to the credit union.' That loan goes a long way to make the branch profitable. We say, 'Unfortunately, we cannot lend to you. We can lend you for a car or lend you for a holiday, but we cannot give you the agriculture loan.' If we can start getting access and build up the expertise and experience—and that can be done very easily once that is available to us; that is, the mechanism to be there so we can access that market—when I and my team goes to a credit union to convince them to go into a town I can say, 'There is a $40 million book out there for agriculture lending and you can expect to get 15 to 20 per cent of that.' All of sudden the numbers change dramatically.

The other thing that I think is important to understand about agriculture lending—and it comes back to the issue of branch profitability—is that what the banks have been typically doing is transferring loans from the small town into their regional centre. For instance, in Trangie in New South Wales all the big property loans were transferred to Dubbo. Then they said that it was not making money. But the loans are still for people who live in that town and they would love to support an organisation that is providing a service to their town of Trangie. We cannot do that. In a practical sense, the cheque issue is there and that will help a bit. But if you are looking at small country town, what is the biggest single issue? If we can get some of these agriculture loans, all of a sudden the numbers improve dramatically.

Mr WILLIS—I can see that makes it more profitable for you. But you said before that they were basically all profitable operations and that there was a capacity constraint. I took that to mean that it was difficult for the movement to actually provide the people, the buildings, and the resources that are necessary to establish the enterprise at a much faster rate than you are currently doing. How does that get changed by the Wallis report?

Mr Genovese—As I think Dave said in his opening statement, even allowing for all the changes, we will not be able to satisfy all the needs out there. The changes that I just talked about will increase our capacity to change because it will be easier for us to convince credit unions to go in there. Whereas now it might be marginal and they are having second thoughts about it, all of a sudden it will not be marginal. It will increase our capacity to do 20 a year, or whatever the target might be, instead of 12 a year.

My personal view from our experience is that the only way you are going to get a solution for the majority of these towns is by an aggregated service approach. It is the only way that we can see ever being able to achieve an 80 per cent strike rate. There will be 20 per cent of towns you will never be able to help because they are towns that are falling by the wayside and they have lost their spirit to fight. Everybody is willing to get an aggregated approach; it is just a matter of coordinating it. That is the challenge we have got.

CHAIR—By aggregated, do you mean a partnership with PIBA plus what?

Mr Genovese—Again, you would have a shop front and you would call it the community one-stop service centre. On the window you would have federal government services, state government services, local government services, financial services—whether it is a bank or credit union it does not matter at the end of the day—printing services, Wesfarmers Dalgety. You name it. If you get five or six people who need to get services into that community, by putting them in together, all of a sudden the numbers look a hell of a lot more sustainable than they would have if you had five shop windows on the main street of Delegate or wherever.

CHAIR—What do you need to get that?

Mr Genovese—To achieve that we need somebody—and we have not worked out exactly what role we can play in it—in a coordinating role. We need somebody to ask the local government association to participate in it. We need somebody to ask the state governments to participate in it. While we have a couple working with it, obviously there are others we would like to work with. We want the federal government departments to help us as well because they are the service providers at the end of the day. The ABA talked about that in their submission, and we mentioned that in ours. They said that they were willing to consider that type of issue and get together to start talking about the problem.

We are never going to be able to overcome the problem substantially in that 80 per cent market without the banks participating. If something could come out of this committee that encourages those parties to get together, if people like our organisation, or whoever is appropriate, plays that coordinating role and gets out there and works with the communities to do it, maybe using the AAA program as a fillip to what we are doing because it is designed to help that sort of thing, then all of a sudden the chances will dramatically increase.

CHAIR—Could you explain, first of all, what the AAA program is?

Mr Genovese—Advancing—Agriculture Australia.

CHAIR—You mentioned an example in Queensland, Dirranbandi. Is that exactly what you are talking about?

Mr Genovese—Yes. Dirranbandi is a very good example of it. Herberton in North Queensland is also a very good example of it. We have the Queensland agency working out of the credit union premises. They are being piloted, and we are very hopeful that the Queensland government will announce a number of other sites they will appoint agents to in conjunction with our program.

Mr WILLIS—In those centres is there a staff separation? Does one person deal with one customer with a government service and with the next customer issue credit?

Mr Genovese—They normally break up their hours. In Dirranbandi the staff go out and measure the lengths of trucks and everything.

Mr WILLIS—Multiskilled banking officers.

Mr Genovese—People in country towns are used to doing these sorts of things. They are locals and they are very flexible. They went through four weeks intensive training to overcome the issues surrounding providing those sorts of services. You can separate it by hours. You can say that the credit union hours are this to this during the day and government services are at other times. There are different ways of overcoming that issue.

Mr CAUSLEY—In your submission under service delivery partnerships you talk about a number of things. You mention there that a number of credit unions have entered into an alliance with PIBA. Could you tell us how that works? Is that how you think you can do the rural lending?

Mr Genovese—PIBA is an interesting example. PIBA is owned by Rabobank. Rabobank is the cooperative bank for the credit union movement in the Netherlands. We have an alliance with them anyway, if you like, because they are our sister or brother organisation from that country. They are owned by credit unions, so we fit very nicely sitting down and talking to them. They basically provide loans for $200,000 plus. They specialise in the agriculture market, as you know. They do not do anything under $200,000, so there is no conflict within the two organisations. We both do separate types of business and culturally we are very similar. We said, ‘Why don’t we work together? You can refer your customers who want loans of less than $200,000 or who want a cheque account and that type of business to us and we can refer property owners in those areas to you for the larger loans.’

That is an alliance that has been built and it is working well in a number of communities. Again, one of the big benefits to the credit union and then to the community, because the community owns their credit union, is that PIBA do not do overdrafts. The property owner might want a $150,000 overdraft. They will get that from the credit union. PIBA provides a bank guarantee on that loan, so there is no issue in relation to security for the credit union. All of a sudden the numbers start improving because we are getting access to doing $100,000 and $150,000 loans at a competitive rate for the property owner. If you do five or six of those in a small town, all of a sudden things start to look much better.

Mr CAUSLEY—So you are symbiotic.

Mr Genovese—Yes.

CHAIR—If you are already doing that, why can’t you do that in all the places you want to go into?

Mr Genovese—We do. There is no rural lending, for a start, in a lot of places we go into, and in all the places we do go into where there is rural lending we have an alliance with PIBA. It goes back to the issue Ralph mentioned, that we do not have the capacity to do all of them.

CHAIR—Could you talk a bit about Cashpoint and explain to us exactly what it is all about?

Mr Genovese—Cashpoint is a new device that allows people to do withdrawals and deposits through the slip of their card. It is an EFTPOS machine with a deposit facility and a balance inquiry facility. It is more functional than an EFTPOS machine. It helps a bit, say, if it is in a local council chamber where you already have infrastructure, staff, security cash draws. It helps in that sort of environment and all you do is put one of those terminals there. It is just a new device that we are looking at using.

CHAIR—How many of those have you got?

Mr Genovese—They are being piloted in a couple of locations. They are very new.

Mr WILLIS—Cashpoint is obviously a very small scale thing compared to an ATM. Do you see Cashpoint becoming like a mini-ATM for credit unions?

Mr Genovese—No. The problem is that they are not stand alone machines like an ATM.

Mr WILLIS—I realise that.

Mr Genovese—All they are going to do is enhance the functionality of what we can do when we go into a place. When we appoint an agent in a location, like a local council, putting that sort of terminal in allows them to do more things than they would have been able to do if we asked them to put an EFTPOS machine in. That is the only enhancement we can see. It gives us a couple more options as far as service delivery is concerned.

CHAIR—Could you expand a bit more on the cost of putting it in? What sorts of facilities do you need to carry cash? Someone has to store an amount of cash in a safe presumably.

Mr Genovese—The terminal carries about $3,000. Again, the weakness of it is that you need the premises. You need the infrastructure, the staff, the security. That is already there. It might be in a council chamber that normally has that sort of facility there or in an existing credit union operation that may open in a small town. They could put those terminals there to help people instead of queuing up or whatever the case may be. It has limited application. It enhances our role a little bit, but it is certainly not going to solve many problems.

Mr WILLIS—I have a couple of comments to make. I love the story about the guy who used EFTPOS to buy a can of coke and wanted $1,000, and I congratulate you for your judicious choice of places to store services, which includes Hawks Nest.

Mr Genovese—Yes.

CHAIR—I think we have probably had a good innings. I thank you very much. That has been extremely valuable for the committee. I would like to thank the witnesses who have appeared before the committee today. If we have further questions, would you be happy to take them in writing?

Mr Genovese—Yes.

Resolved (on motion by **Mr Wilton**, seconded by **Mr Willis**):

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

Committee adjourned at 11.37 a.m.