# HOUSE OF REPRESENTATIVES

## STANDING COMMITTEE ON FINANCIAL INSTITUTIONS AND PUBLIC ADMINISTRATION

**Reference: Regional banking services**

**MELBOURNE**

**Wednesday, 22 April 1998**

OFFICIAL HANSARD REPORT

**CANBERRA**

HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON FINANCIAL INSTITUTIONS AND PUBLIC ADMINISTRATION

Members:

Mr Hawker (Chair)
Mr Wilton (Deputy Chair)

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| 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

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CLEMENTS, Mr Ross George, General Manager Retail Financial Services, Colonial State Bank, 52 Martin Place, Sydney, New South Wales 2000 . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 289

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OSTER, Mr Alan John, Chief Economist, National Australia Bank, 500 Bourke Street, Melbourne, Victoria . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 241

RYAN, Mr Gerald Patrick, Corporate Secretary, Australia Post, 321 Exhibition Street, Melbourne, Victoria 3000 . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 214

SPENCE, Mr Rob, Chief Executive Officer, Municipal Association of Victoria, 11 Milton Parade, Malvern, Victoria . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 228

STEPHENS, Mr Terrence, National Manager, Financial Services, Australia Post, 321 Exhibition Street, Melbourne, Victoria 3000 . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 214

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HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON FINANCIAL INSTITUTIONS AND PUBLIC ADMINISTRATION

*Regional banking services*

MELBOURNE

Wednesday, 22 April 1998

Present

Mr Hawker (Chair)

Mr Causley
Dr Southcott
Mr Wilton

Committee met at 10.04 a.m.

Mr Hawker took the chair.

**CHAIR**—I declare open the hearing of the House of Representatives Standing Committee on Financial Institutions and Public Administration's 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. This is an important inquiry and it has generated considerable interest in the community. Four months after the closing date for submissions we are still regularly receiving submissions from a wide range of organisations and individuals. We now have more than 100 submissions from all around Australia.

We have heard much about the impact of bank closures in rural and regional areas from individuals, community associations, small business groups and local governments. We have had valuable input from a number of financial institutions, and from state and federal government bodies. We have heard of a number of very positive developments that are either already in place, providing communities with access to financial services or, alternatively, are in the process of being organised. Many of these initiatives rely on cooperation between organisations and some of the most interesting combine public and private effort.

This inquiry is occurring in an environment which is experiencing rapid ongoing change. The rationalisation of the traditional bank branch network can be attributed to a number of factors, including the increase in competition that has resulted from a deregulation of the banking industry. It is, however, also significantly linked to the developments in technology that are transforming the way many services, including banking, are being delivered. There is no doubt that many of these developments potentially offer substantial benefits in terms of cost savings and convenience to both users and suppliers of these services.

We have heard much about the benefits of the electronic banking facilities already available, such as ATMs, EFTPOS and telephone banking, and also about the possibilities associated with smart cards and Internet banking. We expect to hear more about these from the financial institutions appearing before us today. We also hope to discuss with other organisations appearing today—that is, Australia Post and the Municipal Association of Victoria—any role they may play in facilitating access to electronic banking.

However, while the committee is very aware that the expansion of electronic banking may be the way of the future, it is not, by itself, a complete solution to the problems that are created by the closure of traditional branches. Nor is it, for many in regional and remote areas, an immediate solution. We are, therefore, very interested in exploring ways in which financial institutions can maintain some form of physical presence in the bush, whether it is through the shared use of facilities, the appointment of agents, franchise banking, the expansion of existing networks such as giroPost or through the establishment of strategic alliances between different organisations.

The committee is looking, essentially, for layers of solutions—for solutions which will be of immediate assistance to those affected by the closure of bank branches, for strategies that will help communities through periods of transition as the delivery mechanisms for banking services inevitably evolve and for strategies that will ensure that the necessary infrastructure is in place to equip communities to fully benefit from any technological developments in the long term. We welcome the opportunity to tease out some of these issues before us today.

[10.08 a.m.]

**BAXTER, Mr Tom, Group Manager, Business Products, Australia Post, 321 Exhibition Street, Melbourne, Victoria 3000**

**RYAN, Mr Gerald Patrick, Corporate Secretary, Australia Post, 321 Exhibition Street, Melbourne, Victoria 3000**

**STEPHENS, Mr Terrence, National Manager, Financial Services, Australia Post, 321 Exhibition Street, Melbourne, Victoria 3000**

**CHAIR—**I remind you that the evidence you give at the public hearing today is considered to be part of the proceedings of 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, numbered 77, and it has been authorised for publication. Are there any corrections or amendments you would like to make to your submission?

**Mr Ryan—**No.

**CHAIR—**Do you wish to make a brief opening statement before I invite members to proceed with questions?

**Mr Ryan—**Yes. Thank you for inviting us to appear before you today. Rural and remote Australia represents an important customer group for Australia Post. Their significance is reflected by the fact that 57 per cent of our retail outlets are located in rural and remote areas, servicing some 29 per cent of the population. This morning we would like to deal with three areas in our opening statement: what we currently offer by way of financial services, how more can be done with the cooperation of the banks and rural and remote consumers, and our views on some specific issues that have been raised in this inquiry since our submission was presented and in your recent media releases.

I will start with what we offer. The financial services we offer cover personal banking and bill payments, and they are offered through our national network of almost 4,000 outlets. In many ways, we see ourselves not as the creator of the problem that you are dealing with, but as a white knight that has done much in the last three or four years to remedy the problem to a degree.

We offer on-line personal banking from 2,670 outlets. That is offered, as you know, through giroPost, which is a national neutral delivery channel. We offer simple, speedy transaction services, such as deposits and withdrawals. Services are offered nationally for 11 financial institutions and negotiations are proceeding with others. Our giroPost transactions last year totalled $23½ million, which is up 23 per cent on what they were two years ago, so there has been substantial growth and substantial increases in access.

We offer off-line personal banking services at another 1,400 outlets for the Commonwealth Bank. The Commonwealth is also a major giroPost client. We also offer bill payments from all of our outlets for over 300 principals. Our billpay transactions this year will total approximately 166 million and we have recently introduced a telephone based billpay service.

We have emerged as a significant party in recent years in offering agency services on behalf of financial institutions and utilities, and that has been of considerable benefit, we believe, in widening access and choice, particularly in rural and remote Australia.

We note the committee’s interest in exploring extension of electronic banking services to even more LPOs, but two fundamental points need to be remembered. We are a postal business, not a bank, and we have no financial services CSO. We offer our services on a commercial basis only.Electronic banking, as you would expect, involves high cost, so we offer it only at those locations where it can be commercially viable and at rates that our principals are willing to pay.

It is also important to realise that there is no scope for Post to expand these financial services into loss making areas and then to internally cross-subsidise them. Our present reserve service for standard letters is provided only to cross-subsidise loss making letter paths, not for any other services. That reserve service is likely to be reduced. The National Competition Council has recommended almost full deregulation from January 2000, and the government is considering that report.

So how can more be done? Firstly, we are looking for a low cost technological solution which would enable us to extend the reach of our financial services to low volume areas. So we are looking for a low cost solution to low volume areas. We do not have that solution at the moment, but our efforts are continuing and we are seriously looking at this issue.

Secondly, we believe we could increase choice and access even further if the banks and rural and remote consumers assist us. More specifically, the remaining major banks can come on board by adopting giroPost on a national basis. Some banking principals, we understand, are reluctant to adopt giroPost on a national basis because of concerns that this will cannibalise business from bank branches. However, we believe this has not been a problem for our other national clients. Generally, our share of these transactions is less than nine per cent and, in a number of instances in relation to our principals, it is as low as four per cent. That does not suggest to us that cannibalisation should be a problem.

Rural and remote customers can come on board with us by using the services that are offered by the 11 giroPost principals. Were the remaining banks to come on board, particularly the major banks, we believe that would potentially offer scope to extend on-line giroPost services to some rural areas not currently connected. The rationale behind that is quite straightforward: the wider the choice, the greater potential volume of transactions and the greater the likelihood that we would have a commercially viable outlet.

I will deal briefly with four specific issues that have been raised since our submission. Firstly, we are not presently in a position to offer business banking. We believe it would raise significant security and staff safety issues for us; it would require substantial system redevelopment; and it would require new cash transfer arrangements. We would have difficulty, we believe, in implementing a timely cheque clearance system; and it would require considerable up-skilling of our staff. To address those concerns would involve considerable additional costs. So far, the banks have been unwilling to offer a transaction fee that would ensure the financial viability of such a service. However, I want to emphasise that we are happy to consider from the banks any appropriate commercial arrangement that would recognise our increased levels of risk, the increased skills involved and the increased costs that we would incur.

Secondly, we believe there are sound reasons for not offering giroPost selectively—this has been clearly an issue—and we hold that view on a number of grounds. Firstly, equity: our other 11 clients have committed to national coverage. If we were to agree to selective access, as some of the banks are seeking, the whole basis of our other national agreements could be put at risk.

Secondly, we have technological limitations at present. We are set up for national access, not site-by-site access. Thirdly, we believe selective access would produce customer and staff confusion over which outlet offered access to which bank. And, finally, we believe selective access could lead to commercial detriment for us. Effectively, we would be servicing low volume sites only.

The other issue that has emerged, both in our submission and subsequently, is whether we should have a financial services CSO. We are a post office. We are doing what we can on a commercial basis to assist our customers, but the problem is not of our making and the solution should not be our obligation.

Fourthly, an issue raised is that we are considering becoming an Internet service provider. I think there was an article in the *Financial Review* to that effect. That is absolutely incorrect. It was inaccurately reported. It followed an address by our chief information officer to the Cisco Systems annual conference on another matter and it was totally unrelated to us becoming an Internet service provider.

If I can finish on a more positive note, we have an infrastructure in place to enhance choice and access to personal banking in rural and remote Australia. We will explore avenues to widen that access, including through a lower cost technological solution to low volume areas. We also believe this committee can help us by commending the use of giroPost by financial institutions on a national basis as one way to assist rural and remote Australia. Thank you, Mr Chairman. We would be happy to discuss the issues with you.

**CHAIR—**Thanks very much, Mr Ryan, for that comprehensive introduction. I was wondering if I could just start by asking what it is that seems to be leading Australia Post to be very reluctant to take up what would appear to the committee a good business opportunity, given that you are very keen to develop other business opportunities with the postal network.

**Mr Ryan—**From our perspective, Mr Chairman, we have shown, in the last three years since giroPost has been active, that we are quite the reverse. We are very keen to widen giroPost services where it can be done on a commercial basis, and that giroPost service has grown massively in the last three years. What we are not keen about is being obliged to extend it into non-commercial areas and to run that service at a loss because we are required to act commercially, we have no community service obligation in this area, and we will certainly expand it if we can find a technological solution to do so and if we can get the major banks interested in giroPost.

**CHAIR—**You said you are very reluctant to get into selective use of giroPost. Presumably, technically, that would not be that hard to do. What is the problem? If, for example, there is a small town somewhere that does not have a banking facility, and one or two or three of the major banks—I presume the Commonwealth may have some connection already—said, 'Look, if you could take up an agency for us we could probably make this a viable agency for you on the basis of these towns where it is needed,' what is the problem?

**Mr Ryan**—I do not think we should dismiss the technological problem so lightly. We offer this service through a technology that provides national access. It does not provide site-by-site access. And, secondly, it is all very well for us to talk about offering service in a very remote location but, once we start getting into selective offering of this service, particularly in rural areas, there will be confusion about which bank is able to access our service, which bank is offered a service from a particular post office. At the moment there is no confusion. Any of our 11 principals can be accessed from any one of our giroPost offices.

**Mr WILTON**—I note in a media release from the minister for health last week that he stated that private health insurance funds, or HIC, will soon be able to act as agents for Medicare and, in doing so, develop what he called individual agreements. He went on to say in that release:

> The arrangements will be flexible as some health funds may perceive advantages in entering into arrangements only in certain geographical areas and not in others.

If it is good enough for the HIC, why is it not good enough for Australia Post?

**Mr Ryan**—I have no idea whether the HIC is approaching that on a commercial basis, or whether it is prepared to offer a service in some remote areas at a loss. We are not. It is as simple as that. We are not prepared to offer services at a loss.

**CHAIR**—What would you need to encourage you to offer it? What are you saying? If you got some sort of support from the government you would do it? What are you looking for?

**Mr Ryan**—We are not looking for support from the government. We are looking to the banks to come on board to support national access because we do not think cannibalisation is a real issue when you look at the figures. We can offer services on behalf of all the major banks nationally. That will provide us with a base upon which, possibly, to expand our giroPost network. That is what we are looking for. We are not looking for anything from government.

**CHAIR**—So you are looking at this as on a commercial basis only, not on a service basis?

**Mr Ryan**—That is right, yes, because we are a post office, we are offering agency services where they are valid and where we can make a commercial return out of that service.

**Dr SOUTHCOTT**—Can I just clarify some of the numbers? There is, Australia-wide, 4,000 outlets. Now, is it 75 per cent of those outlets which are licensed post offices?

**Mr Ryan**—Yes.

**Dr SOUTHCOTT—**Of the licensed post offices, what percentage would have giroPost?

**Mr Ryan—**One of my colleagues may be able to answer that.

**Mr Stephens—**Just over half have that technology.

**Dr SOUTHCOTT—**As of July 1997, it was about 1,347.

**Mr Stephens—**That is right.

**Dr SOUTHCOTT—**So that would be, if there is three-quarters, about 3,000 licensed post offices?

**Mr Stephens—**That is correct.

**Dr SOUTHCOTT—**Roughly half. You have also said that, for it to be viable for you to have a giroPost operator, you require 12,000 transactions which include billpay or deposits, withdrawals and so on. What improvements can you see in the future in terms of technology that might see the number of transactions actually reducing?

**Mr Baxter—**I think there are two areas of improvement, and we are exploring the opportunity to find lower cost technology that specifically focuses on banking in particular as a service. So we see there as one opportunity. I think the other opportunity is that communication costs are a significant factor in relation to supporting on-line electronic services in rural communities. Hence, the tariffs charged by the telecommunication companies are a significant factor as well. We are starting to see some of those come down, so that is also a force which is coming to bear. It will make it more financially viable to move into lower volume sites than perhaps we would have supported through our conventional electronic point of sale technology.

**Dr SOUTHCOTT—**Just in terms of the mechanics, if someone goes into the local general store and they make a withdrawal, they are charged a transaction fee of $1.50 on giroPost; is that right?

**Mr Ryan—**The individual is not charged; the principal is charged and the fee is around that range.

**Dr SOUTHCOTT—**When you say the principal, the general store—

**Mr Ryan—**No, the financial institution on behalf of which the transaction is done for the customer.

**Dr SOUTHCOTT—**If the financial institution is paid, then it is borne by the bank?

**Mr Ryan—**Yes. They pay us for a service.

**Dr SOUTHCOTT—**So it does come back. It does go back to the customer, but it does not go back to the individual customer necessarily—

**Mr Baxter—**In some cases it goes back.

**Dr SOUTHCOTT—**But it goes to the total customers and shareholders and so on of the bank?

**Mr Ryan—**Yes, in the same way as they would bear the cost ultimately of any other expense that the bank incurs.

**Dr SOUTHCOTT—**So that is a charge made by Australia Post to the bank?

**Mr Ryan—**Yes. It is a fee negotiated between us and the bank or other financial institutions for the service that we offer on their behalf.

**Dr SOUTHCOTT—**How did you set that fee? It is the same fee as banks have got for people using ATMs which are part of different banks?

**Mr Stephens—**It is important to distinguish the difference here in that we are providing a personal over-the-counter service. So, obviously, the labour costs of that transaction are a significant component of the total cost. So the $1.50 reflects the actual cost that we incur in delivering that service over the counter.

**Dr SOUTHCOTT—**What are the arrangements you have with, say, a licensed post office which has giroPost there? What are the arrangements there?

**Mr Stephens—**They are paid a proportion of the fee that we charge the financial institution; so their payment for that transaction is a proportion of the total fee that we charge the bank.

**Dr SOUTHCOTT—**In terms of the commercial arrangement that is what they receive?

**Mr Stephens—**Correct.

**Mr CAUSLEY—**With the 1,347 outlets that you identify here in rural Australia, what size communities are we looking at?

**Mr Ryan—**They would range from the reasonably substantial—we are talking thousands—

**Mr CAUSLEY—**I will rephrase it: how small can you go?

**Mr Ryan—**I might take some advice.

**Mr CAUSLEY—**I am really looking at the small communities where probably this is the greatest problem. Australia Post usually has either a licensed outlet there or mostly in the small communities someone that is licensed. How realistic would it be to believe that in the future those smaller communities could get access to this giroPost?

**Mr Ryan—**It is difficult for us to be explicit in answering that, but if we can find a lower cost technological solution that, for example, reduced the set up cost by 50 or 60 per cent, then the number of transactions that we were talking about before to make that viable would similarly come down. We might be looking at 4,000 or 5,000 transactions a year as compared with 12,000, which is 100 a week and that is not large. So if you have got a community of a couple of hundred people who want to utilise giroPost for simple personal banking transactions, then you might have a viable service. But I have to qualify all that. I have just made some assumptions.

**Mr CAUSLEY**—I am just trying to find out what size these communities are. We have a report from the ACCC at the present time on Australia Post. We have declining numbers in rural Australia that seem to be continuing. Do you see those 4,000 outlets that you have continuing or do you think there could be reductions in the future?

**Mr Ryan**—Under a service charter that is presently being discussed with the government—and I think it will be issued in July—my recollection is that we are committed to preserving a minimum number of outlets—4,000. Our total outlets are slightly above 4,000 at the moment. So I do not expect any reduction in the total figure. There may be some changes in the mix.

For example, some corporate officers may well be converted in time to licensed post offices. There may be a few licensed post offices where the licensee feels that he or she is just not making a dollar any more and decides to forgo the business. In which case we would introduce a community postal agency which provides basic services such as access to stamps, postage assessment, receipt and sending of mail. There are around 400 of those around Australia at present.

That was a longwinded way of saying that I do not think the number of branches or outlets will reduce beyond that figure, but the composition may change over time depending upon changes in community demographics.

**Dr SOUTHCOTT**—If a licensed post office comes to you and wants to establish giroPost—presumably they have had a billpay service there already, but they would not have been accepting deposits or withdrawals—how do you assess whether they will be able to achieve your benchmark level of transactions?

**Mr Stephens**—Our threshold for transaction volumes in this case is around 12,000 and that is made up of both banking and billpay transactions. In the smaller locations it has been our experience that they are currently handling around two transactions a day, so it is a pretty small volume. So they are handling, roughly speaking, about 3,500 transactions a year—roughly two a day.

**Mr WILTON**—Mr Ryan, only one of the big four banks is represented on the giroPost network. I would suggest that that is because banks do need the flexibility to negotiate on a geographic or local basis. What obstacles do you see there are in the way of major banks being represented on the giroPost network?

**Mr Ryan**—I think the fundamental obstacle goes to our difference of view about whether there should be national coverage or selective coverage. As I said in our opening statement, frankly, our experience is that we do not have a very large share of counter transactions among the principals that we already have—I think the maximum is up to nine per cent and the minimum down to as low as four per cent—and that includes one of the majors. So we rather suspect that the cannibalisation risk that is asserted by others just does not exist on the basis of the facts.

**CHAIR—**Mr Ryan, what is going to break this impasse? This has been around for a while. Everyone is talking about it and nothing is happening. What is the problem?

**Mr Ryan—**First of all, a hell of a lot has happened from Post's perspective. It is very easy to paint us as part of the problem. We have been part of the solution for the last three years. We have grown from nothing to a major giroPost banking service. We are quite sensitive about that. We have done well.

As to how we break the so-called impasse, I think it really gets back to this committee coming to a view, 'Okay, there may be some concerns on the part of a bank, but ultimately what we are all concerned about here is improving services in rural and remote Australia.' There should be some commendation from you to the banks to encourage them to come on board with giroPost. If the problem that they foresee is so serious, there is no reason why after a year or so they could not come off the giroPost service. We just do not think there is a real problem there. Give it a try.

**CHAIR—**What about giving it a trial on a selective basis? You seem to be very reluctant to try that.

**Mr Baxter—**Perhaps I can address that from a different angle. Our giroPost service is a national service. It is the way we presented the service and promoted it to the community. We have argued continually with our financial institution clients and potential clients that how they promote that to their customers and which customers they decide to give access to the giroPost service is really in their court. So we have really said to the banking community, 'You be selective. We are providing a national service that we support across the country. If you feel that among your customer base there are certain customers you want to use a service and others you do not, then you promote it to those customers you want to promote it to and you don't promote it to the customers you don't want to promote it to.' So we have taken a different angle in that argument that simplifies the process for our staff. It makes it a very clear message from Post's point of view in terms of promoting the service.

**CHAIR—**But wouldn't that require you to have an additional cost of having it universal, when really if it is going to be used only on a selective basis? What is the reason for having that extra cost?

**Mr Baxter—**The nature of our universal spread of the service is a technology issue in that we turn the financial institution on in terms of our technology that covers the whole network. One of the key platforms of our retail point of sale system is that you can go into any post office that shows the giroPost sign and enjoy the same level of service wherever you go around Australia. That is a fundamental plank of what we provide as part of service. It is very important for us to retain that integrity in our system and in our service.

**CHAIR—**Maybe if I come from another way. Mr Ryan, in your opening remarks you said you are looking for a low cost solution for low volume areas, but you have not found one. How seriously are you looking at this? What sorts of options have you come up with so far?

**Mr Ryan—**We have got our own information technology unit examining that at the moment. We have had some discussions recently with a particular firm. We are still discussing with them the possibility of introducing this sort of technology. We are not sitting on our hands. We are seriously looking at whether there is a technological solution to this.

**CHAIR—**Can you give us some idea of what might come from this?

**Mr Baxter—**Certainly, it is our intention, if we can, to find a financially viable solution. The prospects are looking good. But at this stage, beyond that we cannot make any commitment in relation to the particular solution we are exploring at the moment. We are at the preliminary stage.

**CHAIR—**It would be a great help to the committee if we could get some indication. Are you talking about something that might happen in six months, two years or when?

**Mr Baxter—**In this particular scenario, it is certainly an answer that we would have in a relatively short period of time—that is, in a number of months.

**Dr SOUTHCOTT—**Half the licensed post offices now do not have giroPost. Are they all offices that you estimate would have less than 12,000 transactions a year?

**Mr Stephens—**Yes, that is correct. In fact, there are around 230 to 250 of those that recorded no business for banking in the past 12 months.

**Dr SOUTHCOTT—**They recorded no business for banking but did they have a bill paying facility there?

**Mr Stephens—**Just to clarify that, all of our 4,000 outlets can accept bill payments. They do not require technology. Where they do not have the technology they send the relevant accounting documents into their controlling office where they are then put into a system.

**Dr SOUTHCOTT—**What sort of places are those 250 that have no financial transactions located in? Are you talking about post offices in Grafton or are you talking about tiny little general stores?

**Mr Stephens—**I have a list here. I was a little surprised to see some of them. In Victoria, for example, there are places like Anakie, which is not far from Melbourne. I can run through these, but suffice it to say that there are a lot of places here—Tinamba, Toongabbie, Tyers, Walhalla, which is down in Gippsland, Wye River, just to pull a few out. There are lots of places. They are very small; they are little hamlets really. That is the type of location—the hamlet.

**Dr SOUTHCOTT—**They are the 250. There would probably be another 1,000 licensed post offices that are getting about two transactions.

**Mr Stephens—**They are getting about two a day.

**Dr SOUTHCOTT—**They would be a little bit bigger than hamlets.

**Mr Stephens—**Yes, they are still the very small townships.

**CHAIR—**Mr Ryan, I would like to come back to this question of business banking. You said you are very reluctant to get into that because of a number of difficulties, which you listed. Why would you not be looking at this as an opportunity given that there is a need in some of these centres, you have the outlet and you can train your staff? No doubt the security can be handled—other agencies are being set up, for example, the pharmacists have given us some examples of how they are handling that. You have transport coming in and out almost on a daily basis. I am assuming that it would not be too hard to include a little bit of extra security in order to carry some cash if it is needed. What is the reluctance to have a go at this?

**Mr Ryan—**We have looked at it and we have estimated what our additional costs would be. We have estimated what a fair transaction fee would be and we have canvassed that with at least one of the banks. We should not underestimate how significant the problems are, particularly the security issue, which is of concern to us where we have small LPOs in isolated country towns or hamlets that might be handling substantial amounts of money. It is not a minor issue and it is not an easy issue to overcome. If we could overcome all of those issues we would be ready to negotiate with the banks on a fair rate for offering business services.

**CHAIR—**Have you got some ballpark figures on this that you could give the committee? What could really be done?

**Mr Baxter—**The answer to that is not simple because the nature of the transactions can vary enormously depending on the type of business. You can go from a business that is perhaps depositing thousands of dollars of cash each day with a substantial number of cheques, which involves quite a substantial amount of processing, to some businesses that are depositing relatively small transactions. The cost variation is enormous. That is one of the issues that we have had to grapple with in relation to trying to price an effective service to the banking community on this one.

I guess the short answer is that prices can vary and we can take a leaf out of the book of the banking community themselves. Some of the agency services they provide other financial institutions vary between, say, $10 and $30 a transaction. Certainly, if you ask any of the banks they will tell you that they offer agency services on that sort of basis in country towns or in towns where other banks do not have branches and at those sorts of charges. It is really a location by location proposition which adds to the complexity substantially.

**CHAIR—**Have you ever thought of asking a bank to tender for providing that sort of service on a site-by-site basis—to give you an indication of what they might do to provide support to set the sort of agency up that takes business transactions?

**Mr Baxter—**The short answer to that is, no, we have not. It is primarily been on the basis that most of the banks we talk to are looking to withdrawing services and not necessarily introducing new services. We can take note of that but we have not referred to that.

**Mr CAUSLEY**—I want to follow up on this cash situation. With the withdrawal of banking services there are probably two big problems that arise: one is the availability of cash to customers and the other is loans to businesses. On the cash issue we have been told by many of the larger financial institutions that within a few years, a relatively short period of time, there will be no cash; we will have smart card. Would it be easy enough for your system to load those smart cards?

**Mr Baxter**—Yes. We do not have that capability now but it is certainly an intent of ours, with the new platform of technology that we are introducing through our post offices, to be able to provide that capability ultimately. That for us at the moment is at least a two- or three-year proposition.

**Dr SOUTHCOTT**—You said that anything below the 12,000 transaction level is not viable economically or operationally. Do you really need 12,000 transactions a year to make the giroPost show a return? I would have thought that it may be viable at some of the levels you were saying, for example, 3,000 transactions a year. It is a fairly simple piece of technology. At what number of transactions a year are you showing a return on giroPost?

**Mr Ryan**—We have indicated our estimate of that and it is around 12,000. The set-up costs for a giroPost service offering both banking and billpay and linked into our national network is around $10,000 to $11,000 per year. That is the set-up cost and the first year of operation. There is obviously some margin in the 12,000 so that the agent can receive some fee and we can make some margin as well.

**Dr SOUTHCOTT**—How much are the ongoing costs once it is set up?

**Mr Baxter**—Around $7,000 or $8,000 per annum.

**Dr SOUTHCOTT**—In your submission you also said that you do not make giroPost available for geographically specific areas. What do you mean by that?

**Mr Ryan**—I think that was addressing this issue of whether banks might come onto giroPost, for example, for a particular town.

**Mr CAUSLEY**—I want to go back to the community service obligations. You say in your submission that you do not agree with that. I am wondering why. It is a fairly common thing with governments these days as long as the cost is transparent within the budget figures. I do not know what happens in Melbourne, but in Sydney, for instance, 50 per cent of the cost of public transport is a CSO. Why would you object to the fact that isolated communities would get a payment from the taxpayer to provide some of these services?

**Mr Ryan**—That assumes that if there is a CSO there would be a budget payment. In our environment that does not apply. We get a limited reserve service—we have to fund loss making activities.

**Mr CAUSLEY**—I am saying that the government would pay you.

**Mr Ryan**—Our fundamental point is that we are a post office, not a bank. We are offering agency services where we can on a commercial basis to assist our customers in the bush. We do not see ourselves as being the correct agency to be obliged to provide a banking service. We do not see ourselves as having caused the problem that is of concern to this committee. We think the responsibility lies elsewhere. To the extent we are able to assist commercially, we are happy to do that.

**CHAIR—**Don’t you think that when an opportunity presents itself you want to be looking to see how you can grab it?

**Mr Ryan—**I guess we do not see a budget funded CSO as a great business opportunity. It is just funding our losses; it is doing no more than that. We are not getting a return out of it.

**Mr CAUSLEY—**The reason I asked the question is that, with your network, you are probably an ideal medium for us to provide services to some of these very isolated communities. I dare say that as long as your costs were covered you would not walk away from it?

**Mr Ryan—**I think that is a moot point. We are being increasingly deregulated, and at the same time we are being required by government to act commercially and generate an adequate rate of return on the funds invested. Frankly, government cannot have it both ways.

**CHAIR—**Thank you, Mr Ryan, Mr Baxter and Mr Stephens for appearing before the committee today. If we have any further questions, would you be happy to take them in writing?

**Mr Ryan—**Yes, we would be happy to take them and respond to them quickly.

**CHAIR—**Thank you very much.

**Proceedings suspended from 10.45 a.m. to 11.00 a.m.**

**MATHESON, Councillor Brad Anthony, President, Municipal Association of Victoria, 11 Milton Parade, Malvern, Victoria**

**O'DONOGHUE, Mr John Vincent, Legal Consultant, Municipal Association of Victoria, 11 Milton Parade, Malvern, Victoria**

**SPENCE, Mr Rob, Chief Executive Officer, Municipal Association of Victoria, 11 Milton Parade, Malvern, Victoria**

**WATTS, Councillor Peter Hilton, Deputy President, Municipal Association of Victoria, 11 Milton Parade, Malvern, Victoria**

**CHAIR—**Welcome 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 and, accordingly, I would 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 33 and it has been authorised for publication. Are there any corrections or amendments you would like to make at this point?

**Councillor Matheson—**Not at this point.

**CHAIR—**Do you wish to make a brief opening statement before I open it up for questions?

**Councillor Matheson—**I do, Mr Chair, thank you very much. Certainly on behalf of the MAV and Victorian local government, we believe it is important that the MAV is represented today and gives evidence to your committee, because the withdrawal of banking services across the state is causing local government a great deal of concern—particularly in rural Victoria—although I must say it is of as much concern in metropolitan Melbourne and I feel it in my own municipality, as we all do, across in other areas.

Effectively, the way we will proceed today, Mr Chair, is that I will give you a brief overview as I am currently doing. I will then hand over to Mr John O'Donoghue to go through the submission and to my colleague Councillor Watts who will give you a rural anecdotal perspective from the north-west of the state, and then we would be happy to answer any questions you may wish to ask.

Certainly, as I said, it has been a major issue. We circularised councils seeking expressions of interest with respect to what we are actually putting forward today and in our written submission. We had written responses from Cardinia Shire Council, Swan Hill Rural City Council, Hindmarsh Shire Council, the Northern Grampians Shire Council and Hepburn Shire Council. These are summarised in the submission. There was, as well, a verbal interest in the meeting with respect to Colac-Otway Shire.

The MAV have met with the National Australia Bank over this issue. We met with Mr Haydon Park and Brent Clark and discussed our concerns. We intend to do that at a national level with the three other major banks and put our position. But, at this point, what I might do is hand over to John O'Donoghue who can run us through the actual submission.

**Mr O'Donoghue**—Thank you. I was not quick enough there before, Mr Chairman. There was one minor correction I wanted to make to the submission. We refer to Cardinia Shire as 12,780 square kilometres. There was an extra seven in there that did not belong: it should have been 1,280.

**Councillor Matheson**—That is a slight change.

**Mr CAUSLEY**—It is Victoria, we understand.

**Mr O'Donoghue**—Cardinia Shire is probably the most significant of the responses we received because it is one of the fastest growing districts in Victoria. It is in the accelerated growth part, of course. The fact that branches are closing there means that we will probably see a situation at some stage in the future where those sort of branches might well be needed, so the infrastructure might be gone at a time when it might become important. Their indication was that Westpac closed a Bunyip branch in September 1963. The Commonwealth closed Garfield and Lang Lang branches in 1993 and 1997. The ANZ downgraded three to three-day agencies—two branches in Garfield and Lang Lang, with the three towns now left with only one branch and, we would think, the potential for future further downgrading.

I suppose the predominant comment that we got from Cardinia was that for businesses in the area that do not have an opportunity to deposit their after-hours takings, it creates a problem. They need to go away from their businesses in the middle of the day. Generally, that means—in a one-man business—closing the business for a period. So it creates a significant problem.

They mention concerns about the elderly, particularly their lack of comfort with the electronic facilities. They see problems in towns dying because of the change in overall activities. We had an approach from Cardinia quite some time before the request for the submission came in and we had written to the four major banks seeking advice from them as to how councils might assist in retaining banks in their particular areas. We added the responses we got from the Commonwealth and Westpac to the submission. You can see that they have made a number of suggestions, but basically it is economic decisions which are downgrading or removing the particular branches.

Swan Hill talked about the problems at Manangatang, where people have to travel 60 kilometres to their nearest facility; and Nyah West which still has an NAB bank, but recently lost its Westpac bank. The National Bank has more business at the moment, which is probably encouraging for them; but if the National Bank take the same approach, then they are going to face that situation where people move out of the town to bank elsewhere. If they do that, of course, there are difficulties with the effect on businesses in the town itself.

The council was investigating CreditCare and the Bendigo Bank, and they have also talked about the possibility of council facilities being available to assist with branch setups. That has not happened, as I understand it, at this stage. Hindmarsh council had a range of difficulties where Dimboola had had three banks and is now down to one. Rainbow only has a part-time facility left. The manager visits from a neighbouring town and it means that people drift over to that neighbouring town, Warracknabeal, to pick up the sort of services that they want from a bank manager and that they are not getting from the local area.

There is a lot of interaction between community people there, in cashing cheques and so forth, which is good for the community; but it does not fulfil the business aspects of the service. If this facility provided by the businesses in services to elderly people—pensioners and so forth wanting to cash their cheques—disappeared, we would think that it would have a marked effect on the town itself.

In Northern Grampians there is a possibility of the council taking over a bank agency role through their customer service centres. They are certainly looking at it and encouraging that sort of facility. Hepburn listed the problems they had with, firstly, Trentham, where they no longer had a service; and, secondly, with Clunes, where the services were disappearing. They talked about problems with the elderly and others who are not happy with the electronic services.

There was one other aspect I just wanted to touch on which we did not refer to in the submission. This relates to the availability of credit unions and building societies in towns that no longer have banking services. There is a provision in section 138 of the Local Government Act in Victoria which relates to the powers of councils to invest in various facilities. In December this year, an order in council was introduced to broaden this to allow deposits or to allow investment in building societies and credit unions. A further order was made in March which made it clear—or the accompanying information from the state Department of Infrastructure made it clear—that the investment potential was a deposit facility. I mention this because one town in northern Victoria in particular—Walwa, which is in the shire of Towong, centred on Corryong—has a committee of management which is a delegated committee of council with an annual budget of a whole $5,000.

This policy means that, while they can deposit their $5,000 in the credit union in Walwa, they cannot use a cheque account facility that would otherwise be available. The thought is that, if the government was a bit more flexible in providing a cheque facility availability for the credit union, which is the Wangaratta Albury-Wodonga Credit Union, that would provide a facility to the towns that have, in some cases, lost their—

**CHAIR—**I bring to your attention that the federal Treasurer has announced that he will allow credit unions to issue cheques in their own right.

**Mr O'Donoghue—**It is not a question of what the credit union can do. The problem is that the state government at the moment is not allowing either the council or the delegate of the council to use a credit union as a bank and use those credit facilities. The credit facilities are there.

**CHAIR—**Is the state government being pursued on this matter?

**Councillor Matheson—**Yes, they are.

**Mr O'Donoghue—**That is the substance of the submission.

**Councillor Matheson—**The number of submissions we received from councils was limited by the time constraints we had with respect to the inquiry. This is an issue which confronts the 78 councils across Victoria. We have had a great deal of feedback particularly from regional and rural councils on this issue. At this point, I will hand over to Councillor Peter Watts who can give you a rural perspective.

**Councillor Watts—**One of the issues that faces the small rural community is having a cashless society. That is not possible because so many small businesses up there rely on either cash or cheques. They do not have plastic card facilities. I will give you an instance of one local supermarket whose float can be wiped out within half an hour of starting the day. People come in to cash cheques and his float is only small and there are no other facilities available. We have the banks operating three days a week, and that is only part days on Monday, Thursday and Friday. Once his float is taken out of circulation, he then has to arrange for more money. Sometimes he has to hop in the car and go to the next town.

**CHAIR—**Can you identify that town?

**Councillor Watts—**It is Charlton. He has problems with not only that but also elderly people who are not sure of how to handle some of these plastic card transactions. So there is a problem there. The other thing that is difficult for them is that some of the older people do not have transport to move to the banking facilities of the other towns unless they have family who are available to do that or some friends to run them over. When they are over there, they take the opportunity of doing some shopping which takes away from their own community.

In relation to ATMs, in the shire I am with there are no ATM machines available. That makes it a little difficult for us to go down that path. I am not sure whether the communications are good enough up there for us to do the banking services by telephone at this time. It will get there, but, at this point, I do not believe it is adequate.

**CHAIR—**Thank you. I want to pursue one matter you were talking about—that is, discussions with the banks. I think you have had discussions with the National. What results have you had from those discussions?

**Councillor Matheson—**We felt we received acknowledgment by the bank of the concerns of rural and regional Victoria with the withdrawal of services, but they were not prepared to offer any real solution at this time. They basically used the excuse that they wanted to await the outcome of this inquiry before they could talk further about what flexible options they may be able to look at.

We suggested and in fact acted upon regular liaison with them and have set up a scenario where we can work with them to develop ideas, flexible banking arrangements or visiting banks, be it by transport. We have even offered the suggestion that we could look at the siting of ATMs in council shire offices where it is manned and people do transact commerce on a range of areas. They are the sorts of ideas that we have put forward. The response we got was, ‘Well, let’s wait and see what the outcome of this inquiry is.’

**CHAIR—**To follow that up, particularly in relation to the National, I refer to the experience of the Moyne Shire where they actually had a contract. Did you pursue that matter?

**Councillor Matheson—**We did. They suggested that they did not want to enter into discussions on that arrangement in that meeting. They saw that as a discreet issue of commercial impact that they wanted to discuss with Moyne Shire Council. If you speak to Councillor David Miller, who is the mayor and has been very proactive in putting his municipality’s views on this issue, it is really not good enough. In fact, the council, I believe, when I last spoke to them, were looking at what measures and what remedial action they could take under their contract if the bank was not going to adhere to the terms.

**CHAIR—**Does the MAV feel it can pursue this as well?

**Councillor Matheson—**Yes, certainly. We do so at a state and federal level with the banks themselves. But without a positive reaction from the banks—and, I must say, they are quite monolithic and you are not going to shift them in their attitude—they are very much telling us that whatever commercial arrangement they have with Moyne is discrete and one which they do not want to enter into discussions with us about as a peak body.

**Dr SOUTHCOTT—**You mentioned ATMs. One of the banks has told us that it requires at least a community of 2,500 to have an ATM and to make it viable. What about EFTPOS in council chambers? Is that widely done so that people can, if they actually come into the council chambers, pay—I know they can do it at the post offices—their rates with an EFTPOS facility, which might include, like the supermarkets have, the ability to withdraw money as well?

**Mr Spence—**There is a growing use of EFTPOS across local government and all the electronic banking facilities as a means of us not only speeding up our own processes in the council but also expanding the range of services that are provided. A lot of the rural councils are looking at setting up agency arrangements and are talking to credit unions about the possibility of getting facilities into their shopfront facilities in the smaller towns.

Potentially, that is a way forward for us, although it is really not core business with local government. You would understand that in Victoria local governments had the tripe belted out of them for stepping outside their role in terms of core business. It is really stretching the bow for us to become bankers, but I think the community demand is such now, particularly in the rural communities, that in the smaller towns the councils are going to have to do something.

**Dr SOUTHCOTT—**If you were just to have an EFTPOS facility which has the ability to withdraw money, that might help some of the problems that you mentioned of people obliterating their floats in 30 minutes.

**Mr Spence—**Certainly, you are right. But what I am saying is that it is not a primary role of council. Councils are now very lean and mean beasts in this state. We are being required more and more to focus on our core business. I would argue that this is not our core business. We are not banking agents, but I think the community demand is forcing councils to do it. The economic impacts of taking a bank out of a small community are quite significant. When people travel to the larger communities and the larger towns to do their banking, they also take a lot of their business with them, so you see the economic activity in the community die.

**Councillor Matheson—**I must say also that, in terms of our discussions with the NAB and in terms of the siting of ATMs in regional areas, they have said that they will not put an ATM in where there is anything less than about 7,000 transactions a week. That basically excludes 80 per cent of Victoria.

**Councillor Watts—**The other thing that is a problem when you talk about putting EFTPOS and that into council chambers is security. A lot of these buildings are not up to it because they are fairly old, particularly in the rural areas, so there would have to be major renovations done that way. There is also the handling of the cash that is required. Some days you will get high takes of money and then on other days there will be nothing. It is a matter of just being able to keep that money coming in. I know that some of the community organisations when they run functions might be handling $3,000, $4,000 or $7,000 and they need to deposit that somewhere. There is nowhere for them to go except to the bank and to the night safe, but most of them do not have that facility any more.

**Dr SOUTHCOTT—**Another area that might be a responsibility of local government is to look after the libraries, often, in most of the areas, and there is a fund, the Rural Telecommunications Infrastructure Fund, which does provide money to allow rural communities access to the Internet. How widespread is access to the Internet through the municipal libraries?

**Mr Spence—**It is quite extensive now. In the Melbourne metropolitan area, certainly, and, I would say, in the fringe of Melbourne, and it is growing in the more distant communities, and I think there is an opportunity that that will develop over time. A new system has just been put in at Bass Coast. It is actually a microwave link between Melbourne and Bass Coast Council which will then be used to channel transactions from the Bass Coast area into Melbourne at very low rates of transaction.

**Dr SOUTHCOTT—**Do you know how many of your communities are taking up the fund?

**Mr Spence—**I do not, but I could establish it.

**Dr SOUTHCOTT—**One of the benefits that that does potentially offer, while it does not give people availability to cash, which is important in country areas, if people can do banking on the Internet, they can at least transfer funds from one account to the other, pay their credit card account and so on, and pay their bills.

**Mr Spence—**That is right.

**Councillor Matheson—**There are a couple of other threads that run through the arguments put forward by those councils who have submitted as part of our submission, and they relate to the fact that much of their community, who are an ageing community, have great difficulty in dealing with electronic banking services and, regardless of how much you promote the use of banking services, you find that media is not being taken up.

If you go across rural regional Victoria, people prefer the loyalty factor to be involved in their banking. Farmers and people in regional areas want to be able to speak to somebody face-to-face on issues rather than particularly deal with banking over the phone or banking via email of some type.

So I think there needs to be a blend of services available. I take what you say, and certainly that is one which we will promote as part of our support for communities. Certainly that is a major issue that we are facing, that communities themselves are finding it difficult to take up electronic banking services.

**Dr SOUTHCOTT—**Do you know if any rural councils are actually considering establishing themselves as Internet service providers which allow people access to the Internet but without having the problem of timed calls on the Internet?

**Mr Spence—**There are one or two that are having a look at it. There are two or three programs operating across Victoria at the moment through the state government in an endeavour to centralise activities on councils where there is major service provision there and then linking it out to the local community on almost an Intranet scheme.

**Dr SOUTHCOTT—**Are they metropolitan or—

**Mr Spence—**No, rural.

**Dr SOUTHCOTT—**Rural councils that are looking at it.

**Mr Spence—**There is one. Moira Shire is quite advanced, and Manningham City Council as well.

**Councillor Watts—**You were talking about libraries before. Most of the library services up in the northern part of the state where I come from are mobile libraries, and their service is either once a week or once a fortnight, which creates another bit of a problem.

**Mr WILTON—**The ABA has submitted to us that its members only give, at best, four weeks notice of bank closures to dispel, if you like, the possibility of local people mounting a campaign. Have you had any sort of negotiations with the ABA or with any of the big four banks seeking some agreement that advanced notice in excess of four weeks be afforded?

**Councillor Matheson—**We have actually spoken to the NAB—it is the only banking institution we have spoken to on this issue so far—and put that forward as a problem which councils and communities face. We are finding that, in certain areas, banks are giving less than 48 hours notice.

In my own municipality of Hobson's Bay, the Commonwealth Bank closed down three branches within 24 hours. It gave the community no notice whatsoever, and we were lucky to ring our local members of parliament. There was outrage at that, and that is the sort of level of service that you are getting from the banks. We have told that to the banks, and Haydn Park says, 'Oh yes, it is certainly something we should take on board,' but I think it is only lip service.

**Mr CAUSLEY—**How big is that community?

**Councillor Matheson—**Seventy-eight thousand people.

**Mr Spence**—I had the experience in a community of 150,000 where a number of banks closed. We were told at 5 o'clock the night before the closures were commencing. So we got the notification just before 5 o'clock and the notices went out on the closure at 9 o'clock the next morning. So there is no opportunity to respond. This is in a community where there is a significant number of banking facilities, but it still results in significant dislocation in the community.

**Councillor Matheson**—It creates confusion in the community. I represent an area of high non-English speaking background residents—people who are poorly literate, in many respects. For them to turn up to their bank on the Monday morning and find that it has closed down—and I am talking about loyal customers, going back 30 or 40 years, who have significantly banked with those banks—and to be told that they now have to travel 15 or 20 kilometres on to the next suburb or down the road, people just cannot accept that.

**Mr CAUSLEY**—So the idea that you, as local community leaders, could pre-empt some of this by talking to your local bank about what is necessary to keep it open, you are really saying to us that that does not happen.

**Councillor Matheson**—That does not happen. No, not all at. That is not our experience.

**Mr WILTON**—Would it happen if there were dialogue between either the MAV or any of its member councils and the community, in anticipation of a bank closure, in terms of conducting seminars or the like to empower the community to take action of its own accord with a view to finding alternatives?

**Councillor Matheson**—That would be of great assistance. To utilise councils in such a way that you could use council facilities to broadcast the fact that they are closing down, to get the demographics in terms of basic area requirements and to really use our media, newsletters and bulletins that we put out, I think would be of great assistance to the local community because it is seen to be a community issue. Particularly in regional and rural Victoria, local banking is as fundamental as doing the shopping. You go into town to do that, and if that is no longer there—

**Mr WILTON**—Would you see there being any role for the Commonwealth government in this notion of empowering communities to act on their own behalf in anticipation of bank closures? Is there anything that the Commonwealth government can do or that you would like it to do?

**Mr Spence**—It seems to me that it is processless at the moment. As a council officer—I am chief executive of a big city—the bank will give you a call and say, 'We want to meet you.' They do not tell you what the meeting is about. You set up the meeting and they come in and say, 'Sorry, these branches will be closing. The notifications of the closures will go out tomorrow morning.' You have no power to actually be involved in the process. You get the advice, effectively, way after the decision.

What I am saying is that it would be more appropriate, in my view, that there be a proper process to go through to the determination of the closure and some proper consultation in that so that the community is aware of what is happening and they are aware of what their options are. But people feel totally disempowered by this process. I have thought about how we could lobby to keep banks open, and it seems to me that it is almost an impossible task because the monolith of the banks just keeps ploughing forward.

**CHAIR—**What about the fact that, obviously, as a local council, there is quite a useful account there. To what extent have you looked at trying to empower the council with a particular bank, saying, 'We have got a lot of business here.'

**Mr Spence—**It is a successful tool. Certainly, for the big councils, it is a successful tool. The council I was running turned over more than $80 million, and we were one of the biggest businesses in the community. We had very strong and positive responses from the National Bank. But, for the other banks in the community, because you have no linkage to them, there is no power. When you are in a population of 180,000, with 60 per cent of the population of non-English speaking background, it is not an easy community to work in.

**Councillor Matheson—**When you are talking about regional councils, you are talking about medium sized businesses. They are really insignificant commercially, in many respects, to some of these banks. They are happy to hive them off if it does not suit their commercial purposes.

**CHAIR—**I am taking on board what Mr O'Donoghue said about cheques. But what are the opportunities with other non-bank financial institutions, where you do not have a branch, to bring in a credit union, say?

**Mr Spence—**Councils are looking at that. Some of the rural councils are establishing links with credit unions now in an endeavour to overcome the problem, and that may be successful.

**CHAIR—**Have you got any examples where it has worked?

**Mr Spence—**No. They are in the early stages of development.

**Councillor Watts—**There is one at Inglewood in the old shire of Korong, which is now Loddon. The Westpac bank closed their facilities at Inglewood and that took away the only banking service available there. We negotiated with IOOF to come in to do that and they are working on, I think, three days a week, with restricted hours and so forth; that has given the community access to cash. That community is only small—you are talking about probably 800 people or something like that—and the closest main bank to them would be at Bendigo. There is no public transport apart from the V-line bus service which runs either in the morning or late in the afternoon.

**Mr CAUSLEY—**Why would this process appear to be so slow in Victoria? For instance, I come from north-eastern New South Wales, and I have had several banks close in communities—

**CHAIR—**You have got CreditCare.

**Mr CAUSLEY—**I only want the answer. Within weeks, probably within a fortnight or so, a credit union has moved in to those communities and taken up that—with communities down to 300 or 400 people.

**Councillor Watts—**What happened, particularly with the Inglewood situation, was that we first had to go out and attract somebody. They talked to the Bendigo Bank because they had a sub-agency—I think it was in a chemist shop or something like that—and they wanted to turn over a certain amount of money. So it took time to establish those links and, finally, they convinced the IOOF to come in there. They have done very well since they have set up, but it is certainly nowhere near what the banks would be turning over. But they were pleasantly surprised.

The community got behind it. Some of those people would have had family banking connections with that bank for probably 100 years or more because it is an old establishment, and for them to break ties and tradition was a pretty big ask, particularly when you have got financial commitments with a bank and you need that sort of facility. To come in and take that over, you need the establishment of trust and so forth. That was one of the reasons that it took a little while; it probably took six months to get up.

**Mr O'Donoghue**—However, there still is this impediment to the council picking up the new facility—the credit union or whatever it is—and using it as its bank because it just does not have power, and the state government seems pretty reluctant to give it power.

I suppose, by comparison with New South Wales, the number of council centres—the areas in rural districts where the council's head office is—that do not have a banking facility is small, so the mechanism to put pressure on the government to change that is not as good as it would be if there were no facility there—not that we want to encourage that activity.

**Councillor Watts**—The other problem with that at that point in time, and particularly with the Inglewood situation, was that local councils could not deposit money into those building societies. The argument was put to us: they said, 'You want us to come here, but you can't even put some money in to help service this,' and so forth. That finally did get changed, and they are now able to put money in. But then they were going out to contract; all the banking was being let to contract at that point in time.

**CHAIR**—Getting back to those contracts, have you had any other experiences, apart from the one we raised earlier with Moyne, where a contract was let and a branch has been closed in that shire?

**Councillor Matheson**—Certainly not linked in as much as it has been with Moyne in terms of the actual contract specifying banking services within a municipality. But I know that councils are now reviewing, and intend to review, their banking arrangements with the withdrawal of banking services in their municipalities in a show of demonstration and frustration at the lack of support by those banks.

**Councillor Watts**—The bank in the Buloke shire was the National Bank in Charlton, and it was operating a full service agency at that point in time when the contract was let. They have downgraded that to three days a week now, so I would imagine that account will be based in Donald from here on for access, to be able to get money and so forth transferred across.

**Mr CAUSLEY**—In your submission you mentioned the facility for after-hours banking, particularly for cash, I imagine, but not just for cash. Many banks used to have night safes. From experience in my area, some of those have been closed. Have you got any experience in that area?

**Councillor Matheson—**It is happening right across the state. They are pulling out night safes everywhere. It seems to be that they are not taking into account the needs of the business banking community. It is happening in every municipality.

**Mr WILTON—**One proposal or submission that has been put to the committee goes to the question of the establishment of a bank, perhaps controlled, run and owned by municipalities, which would obviously be used by the municipalities and the public and in which, of course, surplus municipal funds would be deposited. That proposal follows the largely regarded as successful moves by local governments in South Australia and Western Australia in establishing municipally owned self-insurance schemes. What would be your view on that proposal? Has there been any discussion about it within the ranks of the MAV?

**Councillor Matheson—**No. We have not actually looked at that. I think you have got to look at Victoria in isolation from the rest of the country in terms of the state government's attitude towards local government. It is saying to us, 'We want you to operate in no other way other than in delivering core service to local government.' Fifty per cent of our operations are now contracted out. I think the ultimate aim of the government is to see us as no more than contract monitors in the next five to 10 years. But to look beyond delivering what are known as core or local government services is anathema to their policy.

**Mr Spence—**The state of the sector in other states is very different from here. New South Wales, Queensland and Western Australia in particular are very aggressive commercially, particularly Queensland and Western Australia. Their local government bodies operate in a much freer way than we do. Certainly, I do not think I could recommend to our constituency to take on risk at this particular stage.

**CHAIR—**There are no other questions. Thank you very much, Councillor Matheson, Councillor Watts, Mr O'Donoghue and Mr Spence. That was very valuable evidence. We appreciate the time you have given us and the trouble you have gone to in preparing your submission.

[11.47 a.m.]

**ARGUS, Mr Donald Robert, Manager Director and Chief Executive Officer, National Australia Bank, 500 Bourke Street, Melbourne, Victoria**

**CLARK, Mr Brenton John, Adviser, Rural Provincial and Agribusiness Development, National Australia Bank, 500 Bourke Street, Melbourne, Victoria**

**McLEAN, Mr Ian, Manager, Government and Industry Relations, National Australia Bank, 500 Bourke Street, Melbourne, Victoria**

**OSTER, Mr Alan John, Chief Economist, National Australia Bank, 500 Bourke Street, Melbourne, Victoria**

**CHAIR—**Welcome to today's public hearing. I remind you that 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 numbered 103 and it has been authorised for publication. Are there any corrections or amendments you would like to make to your submission?

**Mr Argus—**No.

**CHAIR—**Do you wish to make a brief opening statement before we proceed to questions?

**Mr Argus—**Thanks for the opportunity to talk to your committee. I think you all know my colleagues, and they will help me out with some of the statistics later on. The first and the most powerful message I can give to you is that the changing demographics of non-metropolitan Australia are starting to impact a lot on how we focus our business and what is going on not only in this country but also in other parts of the world where we are represented. You are starting to see some of the rationalisation of the services that we—I will not talk about other banks—are now starting to pursue.

One of the issues that is emerging very quickly in the banking industry is the mix between the fixed and the variable cost component. The traditional regional bank with a traditional retailing bank, under the old structure, had a huge component of fixed costs and not too many variable costs. As you start to move into a technology regime and part of your customer base is demanding a different form of distribution and a different form of customer interaction, you have to seriously consider whether you are able to make room in your current cost base, whether you are efficient and how you are going to fund this new demand for service that your customer base is starting to put upon you.

I cannot overemphasise the demand for electronic commerce that is starting to emerge in this country. Even since the Wallis inquiry, that demand has accelerated; it is like a hockey stick starting to emerge. It is something that is having a huge impact on the marketing strategies that we are developing, and I am sure you will hear from other banks as to what they are doing.

The second important factor is the increased level of competition that is now available in the marketplace not only in the metropolitan area but also in the non-metropolitan area. I have never seen competition like it in my lifetime in the industry. We applaud that; I think it is very healthy. All bank margins are certainly diminished, and they diminished very quickly. I was probably ridiculed five years ago—as I am often—when I predicted, 'Look out when the revenue crunch starts to hit the banking industry here in this country.' Let me tell you, the revenue crunch is here and it is alive and well, particularly when you look at the published accounts of your traditional bank. You still have a banking sector that has a huge fixed cost component and their income streams are starting to fall out of bed. You are starting to find a different demand from your customer base which is saying, 'Look, I don't really need to come near the bank. You guys have got people coming to my doorstep now. I've got use of the telephone and I've got the use of other forms of cards that satisfy my needs.' These are the things that are starting to emerge.

The third factor, and I suppose it is the critical factor, is that the banking industry as we know it around the world—and I do not isolate this to Australia—is grappling with how you handle the new different forms of distribution. I have articulated very clearly to the investor audience and to anyone who wants to listen—and it came out in our Wallis submission too—that as you start to emerge, we are no different to what the manufacturing industry was 15 years ago or to other industries, where you have to understand the unit cost of producing a product through to your point of distribution, and then you have to understand the unit cost from distribution to point of sale. They are critical issues particularly. Banking is a bit like the telephone system: it has been an accepted vehicle for all Australians. We take it for granted because it has been a very efficient industry and part of our life. That is now starting to be challenged by other forms of distribution and other products that are getting into our households, and we are starting to think about that. I make those three points.

The other issue that you need to understand is what we are doing about this particular change. Alan will give you some statistics later on the emotional subject of branch closures and other forms of bricks and mortar that are in the marketplace generally. To give you an example of how our customer base is changing its demands, back in 1996 we had around 2,000 EFTPOS terminals. Today, we have around 10,500 terminals, and that is growing quite rapidly. So people are moving away from the old traditional modes of getting their cash. They are going to the local supermarket and starting to handle the different forms of product that they have. It is an unfortunate fact of life. We get it at our shareholder meetings where people are not happy with this particular form of change. What we have to be good at, and I would say that we have not been that good at it up until now, is educating the customer base as to the alternative options that are available. I am talking from my own bank's point of view; I am not talking about the industry. Others would probably do it better than us; some might not do it as good as us, I do not know. That is for you to judge after you have heard all of the submissions. But it is an important factor and we have to put a lot more time into educating people as to the different facilities that are available.

You will throw back to me in question time: what are you doing about the people who want to go down and lodge their cheque and lodge their cash when you have closed down these places? Let me take you back to my argument of the fixed variable cost component that we as an industry and we as a bank in particular are grappling with. There is no doubt that you can run your economic models that say you should close down a range of things. The process we go through is to put our customers on notice after we have researched the customer base and say, 'Yes, we can no longer sustain this branch as a full service branch. As from such and such a date we will drop it down into an agency.'

When you bring a branch down into an agency and starting looking at the various characteristics and the things that happen in your customer base, it really highlights the changing patterns of buying habits of particular rural customers. I can give you an anecdotal piece of evidence of a relative of mine. You may have heard of Eidsvold in Central Queensland. It is west of Rockhampton, if you are not aware of the geography. I had a phone call one morning from this relative because the local postman had arrived and indicated to him that the branch was closing. I said, 'That's fine. Nice to hear from you. Let me check that through.' I got back to the relative on the Monday and said, 'Yes, that is so. We are going to drop this back into an agency. But why would you be worried about that?' He said, 'You're taking people out of the rural town.' I said 'Yes, that is so. But what is happening to Eidsvold generally? Is it still a good economic centre or do a lot of people go to Monto to do their shopping?'

As you well know, there is a changing buying habit now developing now in the country and that is exactly what happened in that particular instance. I have other friends who ring me pretty regularly and let me know when we are not doing the right thing in some of the country areas. I always do my own check now as to where these people live and where they are doing their shopping. Without any qualification, they are bypassing their traditional towns and going to the larger regional shopping centres.

I make one other point because I think this happening in retailing generally. Coles Myer, Woolworths and Westfield have got to grips with this very quickly. They do not plonk down a shopping centre for no reason. They do their research and they understand what sort of a client base they are going to have going through that particular shopping centre. I believe that the buying habits of rural people now are such that they will go and get the best value proposition they can from the centre that they are dealing with. That is becoming very apparent in a lot of our customer research that we are doing.

How could I offer you a solution for the people who want to make deposits? I have not spoken to any of my colleagues in other banks about this and I will probably get castigated too for even raising it, but I am a great believer in the bureau de change methodology that you see right throughout Europe. I do not think you need to have a bricks and mortar on a corner of a country town with a bank logo up on the corner; I think you need a community bureau de change. We all go in there and rent a piece of space for our cash—for those who still want to use cash distribution, and remembering that that is dying out quickly—because we are all now grappling with the issue of how we get closer to our customer and how we get constant interface and get into the face of the customer so that we are dealing with their demands.

So we reason that you cannot support transactional business not only in the rural areas but in the metropolitan area if you have to sustain the fixed cost component of our cost base that we are sustaining now. There is only one way you go when your revenue streams are under pressure and you have got a fixed cost base that you have not dealt with. I will leave it at that and perhaps open it up for questions.

**CHAIR**—Thank you, Mr Argus, I think you have raised a number of issues there. Maybe we could come back to the last one where you are offering your solution as having some bureau de change. I am not sure that Australians are going to give up cash that easily because Australians traditionally find cash a very attractive means for transactions for all sorts of reasons. How far has the National Bank looked at the possibility of saying, 'If we can't have a bank branch in a small centre, what about some sort of agency arrangement that could include two or three bank branches and/or a number of other agencies at the same time?'

**Mr Argus**—We have not raised it. Ian might like to deal with it from an ABA point of view and address whether it has been raised it in that context. It is a thought process that has gone on in our organisation and I am sure it has gone on in other organisations. I do not know where the ABA is.

**Mr McLean**—We have raised it on a number of occasions in certain ABA committees. It has not had a high profile. That having been said, in our submission we outlined a number of problems that we would have to overcome. They are not insolvable. The main issue is that we also believe that it needs facilitation from governments—federal, state and local. That does not mean that there needs to be cash outlays, but from our perspective it needs to be a commercial proposition. We think we can make it work, but it just means that all parties have to get together in a cooperative manner and come up with a solution. There is no real solution that operates at the moment. We do not believe, for example, that giroPost offers us a solution.

**CHAIR**—We might expand that in a minute. Have you done some ballpark figures on what are viable numbers?

**Mr McLean**—No. The operator transaction business requires some technology changes to be able to update accounts from one point. We have got to put technology into that. Until we have got a proposal or a number of proposals on the table, it is a bit hard to cost them.

**CHAIR**—When you say 'technology updates', what do you mean—some sort of privacy block or what?

**Mr McLean**—We would need a privacy block for a start between the banks and the customers if there are several banks and other institutions in that area. We have got to overcome that. The second thing is we have to have the technology to update our customer bases with the cash that comes in and goes out. Cheques are not going to be cleared straight away, for example.

**CHAIR**—So how difficult would that be in practice?

**Mr McLean**—That is a hard one.

**Mr Argus**—It depends on how much money you can throw at it.

**Mr McLean**—Yes, if you throw a lot of money at it—

**Mr Argus**—It is an economic proposition, but you have to go through and do your business case. You can come up with conceptual ideas of how you might solve something, but then you have to do the business case behind it to see if it is economically viable. If it is not economically viable, then you have to go back to taws and start again. At this stage, that is the genesis of an idea that we and others have got and it is where you can develop that. There is a heck of a lot of work to be done before you even can get further through that.

**CHAIR—**You said that giroPost does not offer solutions. I was wondering if you could expand on that?

**Mr McLean—**Simply because of the way that giroPost operates at the moment; if you want to join their network, you have to join it nationally. We feel that we cannot do that particularly because of the concern that we have that the use of giroPost will undermine existing branches, cannibalise those branches and make them even more uneconomic.

**Dr SOUTHCOTT—**Most of the branches that you would have in the metropolitan area have an ATM right outside and next to the ATM there is probably a supermarket where there is EFTPOS as well where someone can get cash and so on. What difference does it make if at the post office you have got giroPost whose only additional facilities are deposit and withdrawal facilities because it will already have billpay there?

**Mr McLean—**The same thing: if we have got people coming into the branches, we want to do a range of transactions with them, not simply just transaction business. Transaction business by itself is not particularly profitable.

**Mr Argus—**But the structure of the branch network in our organisation is changing dramatically, whether it is metropolitan or wherever. You will have cash centres and you will have centres that give advice. The concept of the old branch network has gone. We cannot afford that. That is a high fixed cost. You should have a good look at what happened in Asia. If you start to weaken your financial services industry down here, you will be in big trouble. If the banks do not become efficient and start competing with the likes of Microsoft and those sorts of guys who are going to offer the facility, then we are not in the game.

**Dr SOUTHCOTT—**I totally agree with you on that but I want to get to this point of the universal network. You can have EFTPOS and ATMs all over the place. Obviously the advantage of giroPost is that it allows, in some of the areas where there is a post office and no National Australia Bank, people access to National Australia Bank depositing and withdrawing. The problem, as you see it, is that you would have post offices in areas where there is a National Australia Bank which will allow that facility already. But that is already going on with EFTPOS and ATMs. What is the big problem with having a post office in the same area as a bank?

**Mr Argus—**Nothing at all, but if you are going to have bricks and mortar, that is a cost. If people want to run that as a cost and they have shareholders then they have to deal with the owners of their organisation about how efficient their owners want them to be. You have to also respond not only to your customer base but also to your shareholders, your people base. You have to respond to your owners very quickly. This is what drives it. It is an economic argument.

**Dr SOUTHCOTT—**So you are concerned that a universal giroPost network will cannibalise your branches?

**Mr McLean—**That is what this case says.

**CHAIR—**That is the point. Earlier today Australia Post pointed out that in their experience it does not necessarily happen because the number of transactions that they are picking up through giroPost is relatively small.

**Dr SOUTHCOTT—**Why do you want to have EFTPOS at a supermarket where people can get cash rather than just purchase goods? You could argue that that could cannibalise your bank as well.

**Mr Argus—**It is not us, it is what our customers are telling us. You are still arguing from the old paradigm where the banks used to say, 'Look, this is all I can do, here it is.' We have gone outside in and done our market research with our customers—and we have wasted megabucks over the years putting out things that we thought customers wanted when in fact they did not—and they are telling us now what they want; how they want us to deal with them.

**Dr SOUTHCOTT—**Are you saying that a customer in a small town that does not have a National Australia Bank does not want to have access to something like giroPost?

**Mr Argus—**We can pick that piece of data out of our market research as to what their shopping habits are.

**Mr CAUSLEY—**How do you propose to service those customers? You have said that you do not agree with giroPost and that you do not think it is going to give the service.

**Mr Argus—**No, we did not say that. We have said that it does not suit our business purposes.

**Mr CAUSLEY—**Okay. We are talking about isolated areas in particular, but if, for instance, these customers, which I think your bank was probably founded on—

**Mr Argus—**We are still winning market share, I might add.

**Mr CAUSLEY—**I have people who would argue with that.

**Mr Argus—**I can show you the statistics.

**Mr CAUSLEY—**There are statistics, statistics and damn lies, aren't there?

**CHAIR—**Let us not have a debate on that.

**Mr CAUSLEY—**The point is: are you just going to walk away from these people?

**Mr Argus—**No.

**Mr CAUSLEY—**Or are you going to offer them some other service? What is the service you are going to offer?

**Mr Argus**—First of all, it depends on what their needs are. If it is purely to lodge money in the account we cannot afford a bricks and mortar network for somebody who wants to go down and have a social experience at the local branch. It is as simple as that.

If people want investment advice, to lodge deposits with us or to borrow money from us then we have a mobile team now that starts to work that customer base extremely well. I am sure your bush network will also tell you that that has proved to be very popular and it has been one of the reasons why this bank in Australia has done extremely well with it.

**Mr CAUSLEY**—I have not heard of them yet, but maybe they will come along.

**Mr Argus**—They have been there since 1979 and they have done extremely well. That is why the market share of this bank is so high in the country areas.

**Mr CAUSLEY**—Mr Argus, you said earlier that you were concentrating on customers—dealing with customers, serving customers. Most of us in the bush do not even have a bank manager any more. We deal with a bank manager hundreds of kilometres away and it is very impersonal. If all the bells do not ring on the computer then nothing happens. Most people find that very disconcerting.

**Mr Argus**—Our research is giving us a different message on that.

**Dr SOUTHCOTT**—I want to go back to giroPost. If giroPost offered you geographically specific options, would that be a practical solution for you?

**Mr McLean**—We would have to sit down and do a business case with all the other alternatives.

**Dr SOUTHCOTT**—Sure.

**CHAIR**—What are the other alternatives?

**Mr McLean**—Mr Argus mentioned some of those. There are variations to that theme. As we said in our submission, it needs people to sit down and start to brain dump as to what might work and what might not work. Part of that brain dump has to be to identify what the needs of people are. We have heard a lot of anecdotal evidence about people who are suffering and who cannot do X, Y and Z. I think that is just that—anecdotal evidence. We get a telephone call from one person who does not like it; Mr Argus gets telephone calls and he does some work with them or whatever. We all get it. What we do not know is what the real needs are. What people are we talking about? Are we talking about the aged, the disabled or the aged and disabled or people who just do not want to use electronics or people who cannot use electronics? We need to identify what needs we are trying to meet before we start to come up with solutions.

**Mr Argus**—You are generalising. What are the economics of the town you are going to put the giroPost in? Are the people still going to the local post office or are they going off to Monto or some other place? Are they going down to Gippsland, are they going to Leongatha or are they going somewhere else? This is the whole issue. It is your population shift that is making the difference. Alan has some statistics here showing how we have followed that population shift and provided a very good service for our customer base. I will share my Reserve Bank statistics with you so that you can understand exactly where we are winning business.

**Dr SOUTHCOTT—**This is where we are at: Australia Post say they will not put a giroPost into a licensed post office which has less than 12,000 financial transactions a year, including billpay, withdrawals and deposits. Three out of the four major banks say that giroPost is impractical because they do not want to have it universally, they want to have it in geographically specific locations.

**Mr McLean—**I should point out that, for example, when we make a decision to close a branch or change a branch status to agency grade we look at the structure of the town. About 50 per cent of the rural towns where we are doing the analysis do not even have a post office. When you sit down to work out what the solutions are, they do not immediately hit you over the head.

**CHAIR—**Will you clarify that? You said that they do not have a post office—including an agency?

**Mr McLean—**No, I said a post office. Banks have to be very careful using other people's agencies because of the very strict privacy conditions we have over us from common law and from the code of banking practice.

**Mr Argus—**The mere fact that Australia Post says that they need 12,000 transactions through an entity before they would think about it gets back to the very point I am making. They are now starting to look at their fixed cost component and whether they can afford a bricks and mortar environment. It is no different from a retailer. If he goes to a country town and sets up a shop he has to think about the economics of that and what his fixed costs are and what can he drive through it. It is no different from being a farmer. If you have a huge property and money invested in the property, and a bit of debt and no income stream, you have a problem.

**Dr SOUTHCOTT—**I totally accept that. All I have said is that if National Australia Bank has this giroPost facility in every post office in Australia that has more than 12,000 financial transactions, what is the problem? We have said that the concern would be that it cannibalises present banks.

**Mr Argus—**It could have. I suppose it depends on what the customer base is telling them from their research. Again, if you join giroPost, what is the joining fee? How much a transaction are they going to charge you to occupy a piece of space in their environment?

**Dr SOUTHCOTT—**That is a question that we would be interested in. I understand it is $1.50 a transaction—and that is levied by Australia Post on the banks; is that right?

**Mr McLean—**No.

**CHAIR—**Australia Post will charge that, and say that that is the cost to them to provide it. That is the cost charged by the bank. I suppose the question following on from that is to what extent could that cost be reduced. Do you have any sort of ballpark figures as to how—

**Mr Argus**—It is a scale gain. If you have got fixed costs and you have got variable costs—whether it is giroPost, whether it is a bank or anything else—you cannot afford to have a huge fixed cost component in your cost base. We are all struggling to get that reversed so that you have got a low fixed cost base and a bigger variable cost so that, when you get into trouble with your margin play, you might elect to step out of the market for a little bit and not be as aggressive as you have been, and you know exactly what you are doing. You have got to be able to adjust these costs. At the moment the banking system around the world is going through a revenue crunch and they have not adjusted their fixed costs.

**CHAIR**—Can we get any sort of indication of ballpark figures?

**Mr Argus**—We will have a go at doing some numbers for you if that is really where you want to go. I think it is probably a banking industry thing that you need to go to if you want that sort of information.

**Mr CAUSLEY**—These are being driven, then, by the competition that does not have high fixed costs.

**Mr Argus**—Exactly.

**Mr CAUSLEY**—And, therefore, it would be reasonable to assume that a lot of your fixed costs are going to disappear in the next few years.

**Mr Argus**—That would be so. We will readjust our fixed costs. They will not disappear. We have got to think about different forms of distribution, and Alan might just touch on his piece.

**Mr Oster**—We have a couple of charts that we might hand out. One of them basically gives you an indication of our branch network. Basically, we have broken it up between what you might call normal commercial rural branches, the business branches and then the agencies. What you can see, I suppose, in that first chart, which is the three-bar chart, is basically yes, in terms of total agencies or total outlets, if you like, we have been coming down. We have, however, been expanding the business side of the branches from around 20 to 70-odd, so it is not all one way.

If you look at the next chart, which is the one that has got the two scales—and I think this is really important to see—I have also added in an extra line, and that is the number of EFTPOS terminals that National Australia Bank has in non-metropolitan areas. Now, in 1995 we are talking about 2,500. By the time we get to 1998, we are talking about 10,500. So what you are seeing is a radical change in the way that these rural services are being provided.

Essentially, those EFTPOS terminals are basically providing, if you like, a type of mini branch almost, or a distribution system, where the local customer is shopping. So what we are trying to do is provide the service, but provide it by a cheaper means, and I think it is on the public record that, to do electronic versus over the counter, the differential in cost is huge.

So what we are trying to do is tailor a banking service to our rural customers that is satisfactory. Now, sure, there will be these small pieces that we were talking about before where you are in a small town and no-one does any shopping there, there is no Australia Post, et cetera, so how do you deal with that? But, at the end of the day, what we think we are doing is providing quite a good service to our customers. Statistics are statistics, but they are collected by the Reserve Bank and the ABS, and our own market share shows the same thing, that we are doing very well in the rural part of Australia.

Another statistic that I would think is useful is to do with branch closures and the amount of rationalisation that we have done at the same time. Now we have to do a lot of tuning, obviously, because you close one and open another one, depending on where you are. But we have done much more rationalisation in the metropolitan area—about 30 per cent of branches versus about 15 per cent in the non-metropolitan area. So if you were going to ask where have we closed more branches, for us it is in the metropolitan area, not the rural.

**CHAIR—**Is it the wish of the committee that the documents be incorporated in the transcript of evidence? There being no objection, it is so ordered.

*The documents read as follows—*

**CHAIR—**On this question, you pointed out EFTPOS, and it is not quite an equivalent, of course, but you also accept that there are gaps. I think that is really what this committee is trying to focus on. We do not question the moves for efficiency that your bank and others are making.

It is interesting that it appears you are basing this policy in rural areas on population trends and not necessarily so much on economic trends. We have seen examples where as small a community as 400 people ensured that they could get a credit union by banding together and putting deposits in of around $3 million. Is it not an area where the bank might be able to do a bit more exploration before just closing branches?

**Mr Argus—**We do, and I would have to say to you that I would have to ask the same question of that community. If they had two banks in there, when one bank left why didn't they do the same sort of thing to try to hold their bank there? That is why we have adopted the policy where, first of all, you drop down from your branch to your agency. In fact, we have found we do not get the support from the community for sustaining that agency any longer than we have to from an economic point of view. It is not just population shift; it is an economic issue.

**Mr Oster—**There is one thing I might clarify. If you look at that chart—you may have to look very carefully, and I am happy to provide the numbers—you will see that this year we are increasing the number of agencies in rural Australia. It is basically the idea that you do not just go in and close the branch; you put an agency in. And the reason the agencies are going up at the same time as the branches seem to be coming down is, in fact, this change in the distribution system. We just do not go in and close down the branch.

**Mr Argus—**With the competition that is available in Australia now, it is quite extreme. When you talk about a community of 400 people, it could well be that our natural market share is probably around 18 per cent and others have about 20-odd per cent. That would be representative in that community. The other institutions are not going to let their customer base go and just walk over to me because I am the last one left in town and I have a huge fixed cost and a non-efficient branch. They are not going to let their 20 per cent of customers come across to me, no matter how hard I try.

**CHAIR—**Even if you go to the community and say, 'Look, you are on 12 months notice.'

**Mr Argus—**We have a couple of examples. Brett may be able to articulate more specifically. There is one near here, down on the Mornington Peninsula, where we actually closed an agency. The community was going to get totally involved with this particular agency when, in fact, as I said to you, the institutions with 20 per cent of the market share quickly closed ranks. And that is what we would do; we would quickly close ranks on our customer base and look at the way we could retain those customers because we still have an infrastructure that we have to start to drive business through. We are not going to let customers go, the same as other institutions will not let their customers go.

Your question about why we do not become the banker to the town is fine. I wish the credit union well because they will come up with the same economic statistics that giroPost have come up with. If you do not get X number of transactions through your branch and you do not get X number of customers through your branch, then it is not an economic proposition.

**Dr SOUTHCOTT—**Going back to EFTPOS and the increase we have seen in EFTPOS in the rural areas, do you have some sort of benchmark for retailers about where you would put in an EFTPOS and where you would not do so?

**Mr McLean—**No, that is done purely on commercial issues. If they want the machine, we will try to sell it to them. They will pay a certain amount of monthly rental for the machine and there will be certain fees that will accrue to each transaction. But it is really a commercial decision between the bank and us. We do not have a benchmark for deciding that.

**Dr SOUTHCOTT—**Do you have differential fees for metropolitan and country areas?

**Mr McLean—**No.

**Dr SOUTHCOTT—**One submission that the committee has received claimed that in rural areas the retailers are charged high fees whereas in some metropolitan areas they were charged no fees.

**Mr McLean—**No, the costs are the same. Since the technology changed two years ago, we now just connect EFTPOS to the telephone system. Prior to that, it used to be a dedicated line and at that point Telstra insisted that 80 per cent were in the metropolitan and 20 per cent were in rural and there was a huge cost penalty if we overdid that. However, since we can connect to the telephone system now, it is just a standard cost.

**Dr SOUTHCOTT—**Is that the reason why in the last two years we have had that explosion? Is there continuing growth in EFTPOS facilities now or is it static?

**Mr McLean—**We are seeing over 1,200 a month at the moment being added to our network. That is a huge number. Whether that will be sustained or not, I am not sure. But the answer is twofold to that: firstly, because the technology is much easier and so it is much cheaper and, secondly, because the demand is much greater. Basically we supply to a demand and that is what we are seeing the demand as. It has been going at 12 or 25 a month in the last four months.

**Mr Oster—**It is a general economic thing; it is no different for the bush or the capital cities.

**Mr CAUSLEY—**That is good business for the banks, but the customer is prepared to pay, obviously.

**Mr McLean—**The customer is paying significantly less for electronics than it is for over-the-counter.

**Dr SOUTHCOTT—**What sorts of fees and charges would a retailer in the bush be looking at?

**Mr McLean—**The same as in the city.

**Dr SOUTHCOTT—**Perhaps I can put it another way. What sorts of fees and charges does a retailer pay?

**Mr McLean**—I think you can say that is commercially sensitive information.

**Dr SOUTHCOTT**—But it is standard; it does not relate to the size of the retailer and it does not relate to the region they come from.

**CHAIR**—Are telephone bills separate?

**Mr McLean**—The telephone bill is separate.

**Mr WILTON**—Once the bank has determined that a branch will close, does it adopt any set procedure in terms of notifying residents or the local municipality?

**Mr Argus**—Not as good as I would want, but Brent might want to answer that.

**Mr Clark**—I pick up on Don's point there: that is something that we can do better at. In recent times there have been occasions where we would have liked to have communicated better than what we did. We are picking up that now. The issues are: how do we communicate and whom do we communicate to first? You have your staff situation. You have got your customer base. You have got the shires and the community. If you let your staff know—and the staff member maybe the daughter of a farmer—then it leaks out. It is a matter of coordinating it together and being able to then deliver. We would like to give at least a month's notice that we are going to change the hours of that particular outlet and that sort of thing.

**Mr WILTON**—Mr Clark, would you agree with the ABA submission to this committee that it discourages its members from allowing more than a month's notice to dissuade locals from manning a campaign?

**Mr Clark**—No, I don't think so. That still gives them enough time if they want to do that. We have done our research. It is not as though we have just decided on a pure piece of data there. We actually go out to every individual location and take a whole lot of performance data and also some local data in the shopping trends and these things that we have talked about before. At the end of the day when we do change the shape of hours or reduce it completely down there, it is backed on all that data there. We are comfortable with that situation.

**Mr CAUSLEY**—Obviously, this committee has been asked to report on the situation we have at hand at the present time. It is relatively new—it has been going for a few years now. We are looking at areas where sections of the Australian community have been affected, I suppose, and seeing what recommendations can be made. Would it be a fair assessment that, as this develops and as this evolves, there will be people who provide niche markets, if you like, for certain services that people might pay a premium price for and people will just vote with their feet when they find the service?

**Mr Argus**—Definitely. That is what the competition part of this industry is all about. One of the strengths we have had is that—and whilst you may not have heard of it, we will have to make sure that we correct that—since 1979 we have had a mobile rural network out there, not just the branch manager. The branch manager has just dealt with the paper flow in the back of the branches.

**Mr CAUSLEY—**I do not belong to your bank, but I am glad to hear you have got branch managers.

**Mr Argus—**There are still some left, but the mobile work force has been a tremendous fillip for our customer base.

**Mr Clark—**We have given rural finance managers the technology. We are increasing the number of those now and putting personal computers with them. So, if the farmer wants to see the banker on his farm, we now have these mobile bankers who can go out to the farm. Before, the branch manager—and we still have those—had to make sure the cash was right and everything else was right. So how do we get him out on the farm to look after the business in his particular outlet? This now frees up these people purely to be customer focused—themselves and a rural graduate. Those two people have that focus on the customer. There is no other relationship to the business underneath other than getting the business going.

**Mr Argus—**Picking up your point on the niche players, every financial institution in Australia understands that if you have an infrastructure with a fixed cost component, you have to have at least something going through this fixed cost component. To suggest that the banks are not customer driven, I would have to say that I do not accept that thesis at all, because it is terribly competitive. I know that the other banks are doing the same market research that we are doing. We are trying to elbow each other out of the way to get into that particular market that you want to be in.

**Mr CAUSLEY—**I understand fixed costs from a farming business.

**Mr Argus—**I am sure you do. We talked about the competition that is here in Australia. There is a bank called Rabo Bank. Some politicians, including very high level politicians, have never heard of the name. Rabo Bank is more of a thorn in my side than some of the local competitors. I am sure the local competitors would say the same thing, particularly if they are lending money. But it is picking that part of the market that it wants and leaving us with just the bricks and mortar and the transactions that are left. We have to react pretty smartly to that, and I think I can talk for my colleagues. That is the sort of competition that is available. I would assert that the real problem is the issue that you are getting back to: how many of your rural customers have a problem with depositing their money? If a rural customer is not getting set for every other service that he wants, I would be very surprised. That is the nub of the issue: what do I do to lodge my deposit?

**CHAIR—**I will come back to that in a minute. You made a point in your submission, when you talked about banks being allowed to get economies of scale, that if the mergers debate was changed somewhat—we all know your views on that; you have made them very public—the opportunity to maintain substantial rural banking services would be increased rather than decreased. Could you explain why that would be the case?

**Mr Argus—**Again, it is a scale issue. It is a scale game that we are playing—if volumes are starting to come through a particular fixed cost component, then it becomes an economy of scale.

**CHAIR—**If there is only one bank branch in town, what difference is that going to make?

**Mr Argus**—It makes a big difference. Because there is only one branch in town, that does not mean that that community is not being serviced. It is being serviced in every other part of the niche of the business other than depositing cash. You can be serviced outside communities now quite easily.

**Mr Oster**—It would have a significant impact where, if you have two branches in a town and they are both uneconomic, you could replace them with one and keep the agency there. If you do not, both of them are likely to close.

**CHAIR**—But there are other ways of achieving the same thing.

**Mr Oster**—There are other ways of achieving the same thing, but the normal assumption is that bank mergers mean closing rural networks. We are saying that, if anything, the evidence would go the other way in terms of agencies or some outlet there.

**Dr SOUTHCOTT**—But it does not help you if the other bank is not one of the ones you merge with.

**CHAIR**—I would like to get onto the baseline banking product for people who are receiving government transfer payments and others on low incomes. What can you continue to provide there? What is the baseline product?

**Mr Oster**—Are you talking about a normal flexi account that they pay their money into?

**CHAIR**—Yes. It is for people who are receiving a transfer payment from the government.

**Mr McLean**—They have access to our normal account system.

**Mr Oster**—It is just a normal accounting system.

**Mr McLean**—If they are pensioners, they have retirement accounts, which are pretty generous. There are certainly limits there on the number of transactions, but they are not difficult according to our statistics. We receive almost no complaints. We do not have, if you like, a thing called a basic banking product which is very limited. We offer a full range of services to everybody at reasonable prices.

**CHAIR**—I wanted to follow up on a point from the Tasmanian Council for Social Services. They put forward a complaint that in one place the EFTPOS charges were varying between 50c and $2 for a withdrawal on top of any purchase charges. Are retailers allowed to add these figures?

**Mr McLean**—I have responded to that in recent times. Our contract with our retailers and our merchants specifies that they should not charge for withdrawals. We have told both the Tasmanian council and the Tasmanian government that.

**CHAIR**—As far as you are concerned, if it is a national EFTPOS, that would not be happening?

**Mr McLean**—Let us say it is in breach of their contract if it is happening.

**Dr SOUTHCOTT—**On the subject of Internet banking, which you mentioned earlier in your introductory speech, that does require considerable cost in terms of establishing Internet access and so on. In terms of how the cost is divided, have you worked out whether it is borne by the consumer or whether it is borne by the bank?

**Mr Argus—**Can I get back to the fixed cost, variable cost component. That is where we are at the moment. If we want to enter into something else, we have to make room in our cost base because our customers are telling us that is what they want. The big challenge for management is how you manage that migration of this new service into your cost base. If you do not run a flat cost base, then you are going to have to do it very quickly with the electronic game, as I am sure you understand.

The consumer does not get charged any more than he is being charged now. That is the cost basis. I do not know how other banks run their shop, but I know how we run ours. It is on a flat cost base. If you want to make some new innovations, then you have to think about the processes that you are pursuing and look at modernising those processes. I would have to say to you that banks have still got some pretty archaic processes.

**CHAIR—**Mr Argus, you talked about some of the statistics on your customer base and so on. Is it possible for you to give some of that to the committee or is that all confidential?

**Mr Oster—**Could I ask what particular sort. There are different sorts of research, if you know what I mean.

**CHAIR—**Research is driving your decision making on changing the provision of services.

**Mr Argus—**That would probably be pretty sensitive from a tentative point of view.

**Mr McLean—**I can answer that and say that we could not make that information available.

**CHAIR—**Okay. It was a good try. I think the committee has asked all the questions we would like to at the moment. Thank you all very much for coming along. If there is anything further, I am sure you would be happy to take questions in writing.

**Mr McLean—**Yes. Thank you.

**Proceedings suspended from 12.39 p.m. to 1.46 p.m.**

**MERRETT, Associate Professor David Tolmie, 26 Hazeldine Road, Glen Iris, Victoria 3146**

**CHAIR—**I welcome Associate Professor David Merrett to today's public hearing. Would you please inform the committee of the capacity in which you appear today.

**Prof. Merrett—**I appear today in a private capacity. I am not representing the University of Melbourne, where I work.

**CHAIR—**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 106 and it has been authorised for publication. Are there any corrections or amendments you would like to make to your submission?

**Prof. Merrett—**No.

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

**Prof. Merrett—**Yes. I welcome the opportunity to do so, thank you. I really want to speak very briefly to my submission and perhaps try to help you make some sense of it. I have been a long-time student of Australian banking, and I wanted to try to indicate really what has happened with the development of bank branch networks and to provide some context for the closures that are going on at the moment.

I posed in my submission three rhetorical questions. The first was: does the current trend in bank branch closures suggest that rural communities will be left with limited financial access. My answer to the question I set myself was an unequivocal no. I do not believe that rural communities will have limited access to financial services.

To go over the points again very quickly, it seems to me that what is happening with the closure of bank branches in the country and in the city reflects the impact of new technologies on distribution systems and branches which were designed for other times. As I am sure other witnesses may have stated very forcibly in their cases to you, all sorts of financial services, including the issuance of cash and payments, are now provided through a variety of distribution mechanisms such as ATMs, EFTPOS cards, phone Internet banking and, soon, stored value cards.

I think what we are seeing is an unbundling of financial services and of the financial providers of those services. Increasingly, it will be businesses other than banks that are going to be selling and distributing financial services. Really, people in the country and everywhere else are going to have wider choice. There will be multiple providers and multiple distribution systems. But what about branches? Not all branches will be closed; banks will retain branches where they are profitable.

I speculate in my brief submission that there is competition between banks that will slow the pace of branch closures. There is rivalry between banks. When you analyse who is closing and who is opening, it is clear that the new banks are actually rapidly increasing their points of representation. Most of the closures are being undertaken by the four majors but even there I think we could expect to see all sorts of rivalrous games played out, where the action of one will be contingent on the actions of others. All this will serve to slow reductions. If people in the bush are concerned about whether there will be any branch or over-the-counter service left, I think it will ultimately be Australia Post and the agency system that it runs that will provide the bedrock of a distribution system that will give a traditional type of service.

The second question really leads much more to my long suit, I think, as a banking historian. Why have Australian banks developed large branch networks? Have we had any historical experience in this country of small community based financial institutions—the sort of unit banking that is common in the United States of America? Again, the answer is very simple. Historically, our banks have always had branch networks. We do not have a history and experience of unit banking. There is a good deal of empirical data that Australian banking began, we can date it quite clearly, in 1817 with the set-up of the Bank of New South Wales. Most of the initial banks were single branch or unit banks. By 1851, with the exception of the Wales, they either had failed or been absorbed. Really, from the 1830s up to the present day, Australian banks have followed the English/Scottish system of branch networks.

The story is that the number of branches and agencies of both trading and savings banks has increased strongly over time, but irregularly. There were significant reductions in the number of branches in the 1890s and again in the 1930s and during the Second World War. Really, the branch reductions in those periods dwarf the branch reductions going on at present.

The great increase in branches peaked in 1970. There has been a marked slowing down since then. A point I would make, which may come as a surprise to you, is that, firstly, if we take the total points of representation in both branches and agencies, that aggregate number of branches and agencies is higher now than it has ever been, despite the closures that are going on. Secondly, there are more branches and agencies per head of population in the non-metropolitan area than in the metropolitan area. That has always been the case and, really, the gap, if you like, in overrepresentation in non-metropolitan areas is narrowing, but it is not the case that non-metropolitan Australia has less points of representation than the capital cities.

Thirdly, and to cut to the chase, why did Australian bankers choose to build networks rather than to operate on a unit banking system? The argument here is that bankers in the past, until very recently, have perceived there to be benefits from size. The most important benefit is that having a wide pool of depositors and customers to whom you lend reduces risks. You can diversify risk—a wider pool. Ideally, any bank would want a very large number of small depositors whose income streams and so on are quite independent of one another, who are drawn from wide geographic regions, different industries and so on, and they would want the same from the people to whom they lend. You want many small borrowers who are using their funds in different types of industries that are not going to be subject to the same types of economic forces. A bank so positioned is less likely to fail than a bank that would rely on a small number of depositors in a single location whose income streams would come from a similar industry and, consequently, the same for the borrowers.

I have probably confused you by saying that I could see there would be no evidence of economies of scale, that the banks did not reduce costs by being big and by having branch networks before they started to apply computers to back-office processing. The reason we have had branches in the past is to reduce risk, but running a big branch network puts great stress and strain on the management. You had to have good internal procedures and controls, otherwise you could have had bad lending practice at one or a few branches that could have brought the entire bank down. That clearly happened in the 1890s. I think, really, Australian banks subsequently have been very good at imposing controls over branch networks to minimise what I have called ‘operational risk’. Once you have got those procedures and controls in place, you have an accumulated experience that lets you open a new branch easily and that gives you a competitive advantage over anybody who wants to enter the industry and who has to learn those sorts of skills.

Those sorts of issues explain the continuing drive between Australian banks to move from small local networks to colonial or state based networks and now to across the continent network. The big four are represented across Australia but each with its own different wrinkle on the distribution of its branch network.

I do raise the point too—and it is a point of speculation—that rural lending poses particular risks to bankers. If you lend to farmers, particularly non-wool farmers, there are very irregular cash flows, prices that are subject to great volatility and returns that are subject to exchange rate volatility. Farmers have assets to put up as collateral that are often very illiquid. In some ways, lending to the rural community is a nightmare compared to lending to other sorts of borrowers who may have more regular cash flows and so on and so forth. It is my view that, in the 20th century, the private trading banks have withdrawn their support to the non-wool industries relative to the state banks and government agencies.

**CHAIR—**Being kept from the non-wool industries?

**Prof. Merrett—**Yes, the non-wool industries. I think the private banks have continued to support with lending and credit very much to the wool industry.

**Mr CAUSLEY—**They knew where the money was.

**Prof. Merrett—**I think they perceived, I think correctly, that the risks in some of what we might think of as minor rural industries were much greater and were increasingly taken up and underwritten by state and federal governments.

What are the lessons of history? The lesson of the past is that small banks, community banks and unit banks were not viable in the bush in the past. I will give two, if you like, very brief vignettes. There was an attempt to establish a new bank in the 1920s, the Primary Producer’s Bank of Australia. It was established in 1921 and went into liquidation in 1932. That was the only new private bank that entered the industry between 1891 and 1981—90 years. One new competitor, and it failed.

Basically, it failed because it had a huge concentration of business and risk, exposure to commodities and was hit by the 1929-30 Depression. It was the only bank that failed in Australia in that circumstance because its risks were not diversified. The other vignette is that there was New South Wales legislation passed in 1923 which effectively set up rural cooperatives that allowed those cooperatives to behave as a bank if they wished. Of the 150 that were set up before the Second World War, not a single one chose to take that option.

Would small, community based banks be viable today? I suspect not. If a community bank tried to set up in a town or region where the majors had withdrawn because they could not operate at a profit, I think it highly unlikely that a freestanding unit bank could be commercially successful in the same locality in trying to offer the same range of services. That covers most of the points of my submission.

**CHAIR—**Thank you very much for that. I think that is a very interesting summary of your submission. It raises some very interesting historical points. You said the aggregation of agencies and branches is greater than every before. What do you exactly include in that?

**Prof. Merrett—**I did not get into the technicalities of how we do the counting. The data varies over time. The Australian Commonwealth Statistician started to count bank branches before the First World War. It is not until we get to 1945 that there is very comprehensive collection of statistics. The Commonwealth Statistician would count for trading banks the number of branches and agencies by bank and by state, would give an aggregate figure of those in metropolitan and non-metropolitan areas and would do likewise for savings banks from 1945 onwards. Prior to that, how do we know how many branches there were? You actually have to go back to the banks' own records or advertisements where they would list branches and tediously count them.

We have poor data about bank agencies before 1945. What is an agency? Often, let us say, a bank in the country would have a branch and it would go to a small town close-by two afternoons a week to collect deposits or pay out cash. Officers of the bank would go there. There would certainly not be a full range of banking services available from the agency, but there would be a minimal presence. Basically, a cash shop function would be provided.

I will confuse you even further. From 1989, there was no distinction made in issuance of a bank licence between a trading bank and a savings bank. Everything has been lumped together. The Reserve Bank now publishes this data that shows the number of branches by bank by state and also the number of agencies by bank by state. If we look at the totals there, the total end for June 1996, which was the latest data I could get, is higher than the total for 30 June 1991. The 1991 figure is higher than the earlier data set.

Now to confuse you completely, the earlier data set is a real mess because it includes double counting. As you are all aware, the Commonwealth Bank operated as both a trading bank and savings bank and the private big banks operated from the mid-1950s as trading banks and savings banks out of the same premises, but they are counted separately in the official data. What I have done is actually net them out and tried to count total branches, irrespective of whether they are agencies where they are offering a trading bank or a savings bank function. That is a very convoluted answer to your question, but the number of buildings that you can go in and do banking business has increased over time.

**Dr SOUTHCOTT—**In terms of the situation where you have had credit unions establishing banks in areas where one of the majors has closed their bank or initiatives like the Bendigo Bank creating a community bank, you have raised the historical picture of how rarely that has been successful in Australia. Do you have some concerns about whether this will work?

**Prof. Merrett—**Yes, I do, but let me qualify my concern by saying that, clearly, there is greater risk.

If we look at the experience of the United States of America where you have tens of thousands of unit banks—hundreds of them will fail each year—we do have a series of regulatory agencies whose job it is to make sure those things do not happen, such as the Reserve Bank of Australia. We have prudential controls. We have bank examinations and so on. My fear or concern, if you like, comes from the very simple but still powerful point that any bank that relies on local business faces a higher degree of risk than a bank which operates across the nation as a whole and has a broader mix of business.

**Dr SOUTHCOTT—**You mentioned the Reserve Bank, which has responsibility for stability of the system and prudential responsibility up until recently. One of the problems of the late 1980s was that the Reserve Bank was not giving scrutiny to the state banks. They were really pretty major regional banks. If you have a small unit bank along the American lines or a small community bank, how likely is it that the Reserve Bank or now APRA will be able to give scrutiny to that?

**Prof. Merrett—**I think really they are questions that are probably better posed to them. My view would be clearly that it would increase the cost of supervision. You would need a larger number of bank supervisors. It seems to me that, ultimately, the danger to the viability of any individual bank comes from the quality of its loan book. You would need lots of people out and about talking to loan officers in these various banks.

**Mr WILTON—**There have been a number of submissions to this committee which have suggested that many rural centres now have no banks at all and that the rate of rationalisation and closure continues apace. That seems to contradict your evidence that rivalry between the major banks might result in cuts to bank branches in terms of number, but certainly no absolute wiping out of banks altogether in rural centres. How do you explain the connection between the evidence we have received and what you are submitting today?

**Prof. Merrett—**At one level the contradiction disappears in that data I have given to you is aggregate for Australia as a whole. In fact, if you look locality by locality, there are areas in which one branch, more branches or all branches have left. At the same time, in other parts of Australia, we have seen significant increases in the number of buildings or offices that provide banking services. Some of that increase has been in the non-metropolitan parts of Australia.

**Mr CAUSLEY—**What that proves is that statistics are very confusing. I think you mentioned the fact that you believe that, as far as bank branches are concerned, there were more branches per head of population in rural areas than there were in the city.

**Prof. Merrett—**In aggregate, that is so.

**Mr CAUSLEY—**But if you drive 50 kilometres in Melbourne you are in Collins Street whereas 50 kilometres does not take you very far in the bush.

**Prof. Merrett—**Yes.

**Mr CAUSLEY—**That is the problem. So isolated areas do not have access.

**Prof. Merrett**—I think I discussed this point in the first part of my submission and also the verbal presentation. The financial services industry is undergoing extraordinary change. For 140 years in Australia, if you wanted to make a deposit, to cash a cheque or to get a loan, you went to a bank. There was nowhere else you could go. You had a single provider of a narrow range of financial products. The only way to make those services was almost face to face across a counter.

Now we have had financial deregulation and new technologies that enable lots of firms, other than banks in the traditional sense, to sell financial services. Over the phone, over the Internet and through machines there are other ways of accessing banking services. You can pick up a phone and get a loan; you can pick up a phone and pay a bill.

I quite take the point that many people would be resistant to making changes in behaviour, of not wanting to drive for 50 miles if, I think you could say, there are alternative ways of doing your banking. You can go to the local garage with an EFTPOS card and make a cash withdrawal. It may be seen to be far less convenient, in many senses, that you now have to deal with different types of providers or go to different petrol stations, supermarkets or whatever to arrange your financial affairs. We are increasingly going away from a one-stop shop.

**Mr CAUSLEY**—I think you mentioned you believe that Australia Post could pick up most of the isolated rural areas and provide a service. We had evidence from Australia Post that it was not very enthusiastic. Do you have any other ideas besides Australia Post?

**Prof. Merrett**—I am not surprised that they are unenthusiastic. For a very long time the Commonwealth Bank have run agencies through the post office. I think it is interesting that, if you look at the most recent Reserve Bank data, now the Commonwealth Bank has between 4,000 and 5,000 agencies, all of which, I would imagine, are run through post offices. Both Citibank and Challenge Bank in recent years have established agency networks that are nearly as large. Whether they are in country towns or where they are sited I cannot tell from the publicly available data in Reserve Bank bulletins.

I suppose I take the view that business will chase customers. Let us, hypothetically, take the country town that has four branches: each of them has 25 per cent of the market and none of them can make money, so they all leave. But what I suspect may happen is that one of them may creep back. If you can get 100 per cent of the market it might be profitable. I am not sure that we are going to see a sort of ratchet, irreversible wind down of branches in the bush. I think we will see a lot of reconfiguration, if you like, and maybe people will move back in to provide a different type of service, a cheaper type of service.

**Mr CAUSLEY**—Maybe things are going to change. We also had evidence this morning from the banks which suggested that in fact they are about to close a lot more branches.

**Prof. Merrett**—But here, I think, we have to recognise that there are profound changes that are going on in the Australian financial system. You received evidence, I understand, this morning from one of the big four banks. We have at least three banks in Australia that are genuinely multinational, global banks. They operate in world markets, in wholesale markets. Increasingly, I think, they at the margin are going to pull back from what they would see as low profitability retail banking.

But that is not to say there are not other providers. In fact, there are other providers—building societies that have now become banks, credit unions that have become banks. It is likely, I think, that these other banks with different types of businesses and different cost configurations will provide those basic retail banking functions where there is a demand for them.

The majors are going to reduce branches in the city and in the country. But the forces impacting on them, I think, are fundamentally different from the forces that are impacting on different types of providers of financial services.

**Mr CAUSLEY**—So you would suggest more flexibility for the other providers?

**Prof. Merrett**—I think the Wallis committee recommendations, if fully implemented, do give that flexibility. From 1941 up to the present day you needed a licence to operate as a bank, and for a very long time it was virtually impossible to get a new licence. I think from 1941 there were no new banking licences other than savings bank subsidiaries of the trading banks. The first new licence was given to a domestic bank in 1980, and then we have the issuance of licences to foreign banks in the mid-1980s. The number of banks kept coming down and down because of mergers. We now have—what is it?—44 or 48 licensed banks operating in Australia.

So, yes, the majors dominate the market. It is like elephants trampling about: their actions leave very deep and big footprints, but there are also a lot of new mice in the field who are ducking about, and they are expanding. They are increasing their number of branches and agencies.

To come back to Dr Southcott's point about the Bendigo bank, here is a rural provider that sees an opportunity. It is the majors who have withdrawn from Minyip or Wycheproof or whatever. So in Bendigo they saw an opportunity to move in.

**CHAIR**—Thank you very much, Professor Merrett. I think that provides a very interesting insight and an historical perspective. I suppose, before finally thanking you, I might say something that is probably half off the record. I am wondering what is the significance—particularly in light of your reference a minute ago—of the tumbling elephants on your tie.

**Prof. Merrett**—There is no connection. This tie was given to me by a Thai student. Thank you very much for the opportunity to appear before you.

**CHAIR**—Thank you.

[2.16 p.m.]

**BECK, Mr Anthony Joseph, Joint National Secretary, Finance Sector Union of Australia, 341 Queen Street, Melbourne, Victoria 3000**

**LUKIN, Ms Elizabeth, Communications Officer, Finance Sector Union of Australia, 341 Queen Street, Melbourne, Victoria 3000**

**MASSON, Mr Rodney, Communications Coordinator, Finance Sector Union of Australia, 341 Queen Street, Melbourne, Victoria 3000**

**CHAIR—**Welcome to today's public hearing. I remind you that the evidence that you give today is considered to be part of the proceedings of the parliament and, accordingly, I advise 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 47, and it has been authorised for publication. Are there any corrections or amendments you would like to make to that submission?

**Mr Beck—**No corrections, Mr Chairman.

**CHAIR—**Do you wish to make a brief opening statement before I open it up for questions?

**Mr Beck—**Perhaps I will take the opportunity. Firstly, we would like to thank the committee for this opportunity. To provide some context, the FSU is here with a unique perspective on the debate that is currently being considered. We represent approximately 110,000 members employed by banks, finance companies, insurance companies and credit unions throughout the country. The way we see this debate is that we are in a fairly unique position. The major banks have been the subject of public ridicule and public criticism over recent years on a number of matters such as pricing, branch rationalisation and job losses. We see ourselves in a balanced position—that is, we represent our members' interests at the same time as we seek to understand and influence the banks' response to the competitive pressures that they face. We are here because of our increasing level of frustration and desperation to have our voice and our members' hopes and aspirations heard.

I would like to briefly cover and perhaps draw out a few of the major themes that we think are important for consideration. Firstly, we would charge that the major banks in particular in their strategy to close rural and regional branch banking services are taking a very short-sighted view of the industry. We see this manifested in their determination to reduce costs rather than put in place a strategy to grow revenue. As our submission goes into that in some detail I will not necessarily repeat it. But for us, all the major banks are fixated on the cost to income position; they make public declarations to appeal to the capital markets; they sack chief executives and bring in new chief executives; they make policy through public pronouncements to create an impression that they are going to be very hard on costs. From where we sit, that translates into a loss of our members' employment, but it also means the loss of branch banking services for rural communities.

We would like to draw your attention to our attempt—in this submission and in our submission to the

Wallis inquiry—to challenge the prevailing orthodoxy that dominates our industry. There is an alternative. The alternative is that we look to a more sustainable strategy to grow revenue; that we recognise that a highly skilled and highly committed work force is a comparative advantage and that the maintenance of a branch network is a comparative and competitive advantage that should be utilised and relied upon.

Most recently, the union has been active in testing whether or not rural communities support our analysis. Our submission draws upon an experience we had in the Donald area. We have attached surveys, letters of support and the activities of that Donald committee. The FSU played an active role in that campaign.

From that we learned what we would submit is the true position of rural communities. Despite the appearance of alternate delivery systems that are clearly becoming available, the evidence in our submission is that rural communities much prefer to have a face-to-face, direct relationship with a banking facility. They see it not as an optional service that should be made available to them, but as an essential service. Despite intense lobbying and, despite—in this case—the ANZ Bank's failure to demonstrate the actual cost imperatives, the rural community lost a further banking service.

We would also draw the committee's attention to what we believe are deliberate pricing policies, instructions to staff and staffing schedules which we believe are designed to actually frustrate consumer access to branch banking and which make access to branch banking increasingly difficult or inaccessible for consumers.

Perhaps, if it is of assistance to the inquiry, we can give an example where the National Australia Bank, for instance, has set up pricing policies to discourage customers from utilising branch services. An internal email from the bank's senior management gives testament to this. It clearly states:

> To further encourage customers to utilise our preferred channels, we increased transactional pricing last year to make our over the counter transactions less attractive.

We have copies of that, if that is of any assistance.

**CHAIR—**You can. Those are authentic?

**Mr Beck—**They are, yes, if that is of interest.

**CHAIR—**Yes, the committee will certainly be interested, as long as you are happy to say that these are authentic.

**Mr Beck—**We can certainly testify to that effect and we can leave copies available for the committee.

**CHAIR—**Thank you.

**Mr Beck—**Further, we are aware of banks actually closing their branches at lunchtime. There is an anecdote in relation to that. I had a call from a journalist one day saying, 'This branch has been closed in Brisbane.' Without doing the proper research, I made the comment that I usually make in these circumstances which is that it is a form of industrial response by the union to protest the lack of staffing. That has been our response, to close branches at lunchtime to enable members to catch up on their work and then resume duties. As it transpired, the bank management itself was deliberately closing the branch at lunchtime, at the most convenient time to customers, to actually frustrate the access of customers to the banking service.

There is a further dimension in this. It is not so much a question of the bank saying, 'There is reducing demand,' or 'There is reducing need,' or 'The demographics are changing'—whatever economic rationalist position they may have put or may put to you. We are suggesting that there is a more deliberate, insidious strategy here to actually price access out of the reach of communities and to frustrate access by communities to branch banking services in order to prove their own proposition that communities do not want access to branch banking services. As our submission suggests, and as the research and work we have done in the Donald community overwhelmingly suggests, notwithstanding whatever may be available by way of alternative delivery systems, people want direct access.

We have read a number of the submissions and, while we do not profess to have had the time or capacity to fully understand all the alternatives that are being put forward for consideration, perhaps we might just make a few very brief comments. But I do qualify this by saying that it will not be a detailed or considered analysis.

The proposition about Australia Post and giroPost being an alternative certainly has some merit to it. We did not hear the submissions from Australia Post this morning, but clearly some of the limitations would be that the technology is not available in all post offices, and that many post offices are not designed to carry cash in the necessary quantities that would be required, raising security concerns. We are not sure that postal workers have the necessary training or skills to provide a full range of financial services and clearly, as that would not be available, it would be a more limited service.

As we understand it, Australia Post have themselves admitted their own nervousness and lack of excitement or enthusiasm for picking up the proposition. They have indicated that they would need to increase fees in any event. The other issue about franchising or community owned banks such as the Bendigo Bank proposition clearly is another method that is emerging. We raise the question: why it is that some communities have to underwrite the cost and the risk associated with the provision of an essential service and other communities do not? Perhaps that is the price you pay for being in some remote communities, but that does seem to us to be a question that needs to be raised there.

A third major alternative that seems to have some currency is the extension of funding and support for the CreditCare program for credit unions. We cover members in credit unions and we support the credit union movement. We are very supportive of that but, again, there are limitations about the size, the financial backing, their reach and their access to the broader community which we do not believe necessarily makes that an effective alternative.

Before summarising and outlining the three or four key points that we would like to place before this inquiry, the other point I would like to make is about our very great concern and our recent experience with mergers, rationalisation and takeovers in the industry and what that is doing to employment and branch banking services. For instance, to use the example of Victoria, given that we are sitting in Victoria today, the Commonwealth Bank's takeover of the State Bank of Victoria—and I guess we are having a more recent run of that with Westpac's acquisition of the Bank of Melbourne—resulted in the closure of 301 branches. The CBA's SBV acquisition caused the closure of 301 branches and the loss of about 7,172 jobs.

Interestingly, from our analysis, with the Commonwealth Bank's acquisition and their very severe program of cost reduction, cost recovery to claw back the acquisition price, the closure of branches and the sacking of staff, at the end of seven or eight years they had lost all the market share they had paid out for in acquiring the State Bank of Victoria. In terms of the strategy that the major banks are applying, we say that there are some important lessons associated with that.

I will invite questions and comments, but I would first like to indicate that there are four basic points that we came to when we considered this question. The first is that we unashamedly come to this inquiry expressing a deep and abiding concern for the loss of jobs that is occurring within the banking and insurance sector and, for the purpose of this inquiry, the banking sector. With the more oligopolistic structure of the industry and the acquisitions that have occurred—with Com Bank and SBV, Westpac and the Bank of Melbourne, St George and the Bank of South Australia, and Challenge and Westpac—all the regional banking structures are being swallowed up. We are getting further concentration and that has had a massive impact upon our members' employment security. We have lost about 40,000 full-time jobs alone over the last five years from the four major private banks, let alone rationalisation of the regional banks, and we are very concerned about that.

This is also translated into the concern and support we have from rural communities who are losing their branch banking service. It is an essential service—it is not a voluntary thing; it is not an optional thing. We believe it is an essential community service that you have access to a full range of branch banking services. It is well and good for people to talk about alternatives that are limited—EFTPOS or ATM—but they do not have to live in that environment.

Our second point—and it may be a point of philosophy rather than industrial relations, which is where we would say our expertise is—is that we challenge this committee to give us advice, give us a response and give the Australian community a lead on whether or not these major corporates have a community service obligation. Do this committee and this parliament say to the Australian community, 'No, there is no community service obligation, this is just a case of market rules. This is just law of the jungle. Whatever the market will bear is what we will go by and if the profit is the major motivator, that is what prevails.'

We will put a contrary position, which is that the Australian government, on behalf of all Australians, provides an economic framework, a stable political environment and, out of that stable political and economic management, we have got one of the highest concentrations of banking structures in the world. Out of that high oligopolistic structure, the four major banks alone reap very generous profitability—their return on equity is extremely high, their net profitability is extremely high and they enjoy that dividend and they enjoy that benefit. We say good on them, but the community and the union is entitled to ask in response what their obligation is. One of their obligations should be to take responsibility for the provision of fair and equitable access to banking services.

Our third point would be that if, in your deliberations, you become aware that there is an issue about a crisis in the provision of rural banking services, if you think that is a concern now, we would draw your attention to the calamity that would occur if the four pillars policy were withdrawn. Our third point would be that the amount of rationalisation that has occurred until now, in our view, has been unprecedented and very damaging. It has been driven solely by the major banks to maximise their profits. We pose the question: what would it be like if the government stepped back from its commitment to four pillars? In our view, it would deteriorate very sharply and very dramatically.

Our final point would be to express in the clearest terms we possibly can that the FSU considers itself to be a moderate union, a well-informed union, a professional union—for whatever that is worth. We have not sought to expediently pick up on the bank bashing debate that is occurring in the community. You do not see us up there in the headlines expediently exploiting those opportunities. We are working hard behind the scenes to represent our members. We are working hard to advocate a position to our employers bilaterally. We are working hard to put a position in the industry sense to the Australian Bankers Association. We are working hard to put a position to government.

On those three fronts—that is, bilaterally with the employers, in an industry sense with the ABA, and with the government—the FSU cannot get a foot in the door. We cannot get a hearing about the concerns that we believe are important. The individual banks are not interested in dialogue. The ABA refuses to recognise us. And on our entreaties to the government to actually look at the labour relations issues, the labour displacement issues, and the broader public policy issues, we are not getting adequate response. Correspondence to the Treasurer goes unanswered.

I guess what we are saying is that we are now being pressed by our membership to actually intensify our activities and be prepared to speak with more political voice to make sure that our members' concerns in relation to the broader structural issues, but particularly rural issues, are heard.

In summary, they are the four points that we would like to suggest are important to us. Firstly, there is the general question of employment and job loss. We have an alternative strategy that looks at careers and competencies and transference of skills and transfer of employment. We would like a forum to put that. Secondly, we are concerned about what the prevailing philosophy is that governs a consideration in public policy terms. Do these employers have a community service obligation—yes or no—or is it just that the market place will determine points of distribution?

Our third point is that the question of the four pillars I think is now drawn into very sharp relief and it is an issue on which we would request guidance from the committee or a view from the committee. Finally, the FSU, with whatever credibility we have, whatever legitimacy we have, find that we are becoming frustrated and blocked in trying to raise these legitimate issues, either with our employers, with the industry association or with the government. On that basis, we have appreciated this opportunity and welcome your questions.

**CHAIR—**Thank you, Mr Beck. You wish to make a further submission, I take it. Is that right?

**Mr Beck—**I am not sure if it is a further submission, but it is a summary of what I have just spoken about, and there is some supporting documentation.

**CHAIR—**I am sorry. According to Mr Masson, there was something to add to the submission.

**Mr Masson—**Yes, that is correct.

**CHAIR—**Is it the wish of the committee that the document be incorporated in the transcript of evidence? There being no objection, it is so ordered.

*The document read as follows—*

**CHAIR—**Thank you. Mr Beck, in your opening remarks you made some interesting comments about the emphasis of bank policies, and you talked about the emphasis being very much on reducing costs rather than on growing revenue. Given that your union represents people in more than just the banking sector, where would you see that opportunity for growing revenue and, secondly, would it not probably cut across some of the other areas where the FSU presumably has membership, such as the managed funds?

**Mr Beck—**That is a very good question, and we are sensitive to some of the competing pressures that we face. For instance, there are new entrants into the industry, such as General Electric and some of the foreign bank entries where we do not have membership, and so, unashamedly, we would put a proposition to our major employers where we have a major relationship and where we have memberships to protect. We would be saying to our employers that the way in which they are positioning themselves in the Australian market leaves them totally exposed and totally vulnerable to a major new player such as General Electric to come in and put a product to the Australian community that will quickly find acceptance.

In our view, because of the way in which the major employers have behaved, they have actually acted to severely damage their own reputations in the community’s eyes. They have acted in a manner that has been of frustration to consumers, to rural communities and to the broader community. I guess our critique is that you cannot keep behaving like that and then expect that you are not vulnerable to predaciousness from new entrants into the market.

**CHAIR—**Isn’t what the banks have been saying to us that the challenge coming from the likes of GE is part of the reason why they feel the pressure to reduce their bricks and mortar, to put it bluntly, otherwise they cannot match the likes of GE in the competition as the competition gets hot?

**Mr Beck—**Yes. We understand that argument. Of all the trade unions in Australia, I would suggest that the FSU has been at the forefront of recognising the need for structural reform and modernisation. Over the last 20 years we have seen wave after wave of new technology. We have welcomed it; we have not opposed it. We have worked constructively with it, and we have sought to negotiate enterprise agreements that allow for those sorts of reforms and modernisations. All the major employers are putting in place centralised sites and telephone distribution systems, and we have not opposed that. We support that.

I guess that we are now starting to question what is the point and what is the value of our support for that process of modernisation when the employers do not seem to recognise that they also have an obligation either to our members, who are being displaced, and/or to the rural communities that they are deserting. It is not a polar position; it is somewhere in the middle. We say, ‘Yes, there needs to be reform and there needs to be modernisation, but in that process there is an obligation that they take account of the human dimension, whether it is for our memberships, employment security and/or the communities that they profess to serve.’

**Mr WILTON—**Mr Beck, the evidence you have provided certainly accords with other submissions we have received, particularly in regard to the need for face-to-face banking in rural areas and, of course, the relationship of trust that is engendered from that. Given that the advance of some new technology is perhaps inevitable, what do you see as being the most workable mix of new technology and existing bank branch arrangements, especially as they relate to rural areas? And, one final point, do you think that all new technologies really address the needs of rural customers?

**Mr Beck**—We do not know the specific answer as to what the right mix is because that is not our area of expertise. But, based on some of the evidence we have tendered today, we are becoming aware of deliberate strategies to go well beyond what the employers are saying is the case. They are saying that there is a customer driven demand for these alternative systems. We would question that. We would seriously question and challenge that. We think it is being driven to force people onto alternative delivery systems by way of pricing or by way of influencing and coercing our members' behaviour in the workplace. So we would challenge and question that.

In any event, where the new delivery systems are put in place the fact that there is some usage of that does not mean that people do not want the traditional access. In fact, most of the evidence—anecdotal, I admit—from our point of view is that people still like access to the branch but given that you can now ring a telephone centre and get a statement delivered or an account balance, you will do that. But that is not replacement behaviour; that is additional activity.

Our view is that it is too early to say that the new electronic mechanisms are in place to replace it. As I say, we are not Luddites, we are not opposed to it eventually. Our track record is strong and is defensible over the last 20 years and we recognise that we need to work with that. What we are saying is that there is a behaviour that is being imposed upon the community and they should stand up and question it.

**Dr SOUTHCOTT**—On that issue, we heard from the National Australia Bank this morning that they had market research which was showing what customers want. Do you have any research which indicates that these changes are not what people want?

**Mr Beck**—We have attached to our submission some research we have done in the Donald community, for instance, which is very precisely identified with the question that is being considered here and that is about banking services. It demonstrates overwhelmingly that when people are questioned and given the option they want to retain personal and direct access.

**Dr SOUTHCOTT**—We have information, for example, from the National Australia Bank's submission to the Wallis inquiry, that in July 1996 in rural areas only 6.6 per cent of withdrawals were done at the branch. For deposits it was 34.5 per cent. But overall, taking deposits and withdrawals together, only 13.2 per cent in rural areas are done with the branch—31 per cent are cheque and 55 per cent are electronic. That gives some indication of a trend which is occurring. I understand what you are saying when people do say they like face to face access, especially people from non-English backgrounds, elderly people and so on. However, it does seem that people are moving even in those country areas towards EFTPOS, ATMs and direct entry as well, doesn't it?

**Mr Beck**—Certainly, I think that is right. I would not like to think for any moment that we are suggesting that time and technology stops. We recognise we are in a rapidly changing environment and that has been our experience. We are saying that we can be at the leading edge or we can be at the bleeding edge. We think we are at the bleeding edge at the moment. We are pushing it too fast and too hard and we are not doing it for the interests of the community and the employees. The employers are doing it out of their interest. This is an opportunity for us to question that.

In any event, we come back to the question of the CSO, the community service obligations. Their return on equity is almost twice the average return for other shareholders in the general equities market; their profitability is extremely high. We think that is driven out of a highly concentrated market structure. We would say on the basis of that that perhaps you do have an obligation to more than offset that and to recognise that we do have diverse rural communities and you do have an obligation to take that into account.

**Dr SOUTHCOTT—**I want to go back to something the chairman touched on and that is one line banks like, say, GE Capital that are operating with much lower cost structures than our major four banks. They pose a competitive threat to the banks. I take your point on profitability of the banks but it still seems that there is fairly fierce competition for market share even amongst the domestic banks. How do you respond to your constituency when the banks have this competing demand of trying to lower their cost structures in the face of some very strong opposition from overseas as well?

**Mr Beck—**Part of the problem we would suggest is that the industry has been too reactive; it has been too complacent and it has not been attentive to customer relationships. Perhaps an example would be that they hid behind highly protected mortgage rates for so many years—they were complacent about that. Foreign banks entered in the mid-1980s—they did not do a lot about it, they did not position themselves, they did not start to think about that. They created an environment of distrust in the general community so that when a mortgage originator came into the market they suddenly lost 10 per cent of all new mortgage business. I am not sure that because of their complacency and their lack of strategy, et cetera that our members or rural communities should pay the price. That does not axiomatically follow.

I also do not think that if they then behave in such a way with pricing strategies and general arrogance that their brand name becomes so marginalised that they are now exposed to a GE coming in that that is our fault or that we or rural communities have to pay the price of that. What is management doing? How are they managing this changed process forward?

As our submission says, we think they have been caught short. They are playing catch-up. They are slashing costs, they are withdrawing and they are trying to ram through change in a manner that is, in our view, very short sighted. They are trying to play catch-up because of past mistakes. We think there is an alternative strategy based on experience in the states, in particular, which talks about commitments to growth, productivity, skilled work force, relationships and communities that are more sustainable.

It is a difficult argument and it is not a popular argument. None of the chief executives get a chance to run it because they are under intense pressure from boards. If they do not shore up the share price they get the sack. The capital markets are looking for quarter on quarter, half year on half year, year on year improvement. That is the basis of our submission.

**Dr SOUTHCOTT—**Are you aware of how the US Community Reinvestment Act works? Is that something that you are familiar with?

**Mr Beck—**Not in detail; we do make reference to it in our submission, though.

**Dr SOUTHCOTT—**What sort of cost does that impose on the banks in the United States?

**Mr Beck—**I am sorry, I could not answer that.

**Dr SOUTHCOTT—**Sure.

**Ms Lukin—**You were talking about the union's constituency; the union has found itself in a strange position in the sense that our constituency is the members but as rural and regional bank branches close those communities are contacting their union and we find that we almost have a separate constituency that we are not really geared up to to support. You asked us questions about the research that the National Australia Bank put before the committee this morning. The union has relied on the Australian Consumers Association running a consumer line but more and more the union is being approached by communities asking for support and help. They find nobody else to answer their questions about why the bank branch is closing. They come to us and say, 'Here's the amount of business in this branch; can you tell us why the branch is closing?' So we are playing catch-up a little bit too in that we find we are one of the only organisations that these communities can come and talk to and get at least a hearing and some support for their own local campaigning.

They say to us, 'If our bank branch closes and people are forced to go to the next town they will stop doing their shopping here and the local shop will close. If the people who work in the bank go then they take their kids out of the school.' People who work in the banks in these local areas sometimes have a long-term connection to the community. So the communities are coming to us feeling extremely desperate about the loss of their branch.

We do not have all the evidence and we have not done our own research yet to try to test some of those attitudes in the community or to turn that into more of a political campaign for ourselves. We are finding that that is going to be the next step because we have a different constituency that is coming to us and asking for our support.

**CHAIR—**Thank you. I want to clarify something in the submission that we have taken. The e-mail you have there does not say which bank. Could you say which bank it is?

**Mr Beck—**It is the National Australia Bank. It does have some deletions in it to protect some of the individuals who have been involved in receipt and dispatch.

**CHAIR—**Secondly, in your opening remarks, Mr Beck, you made reference to writing to the Treasurer and not getting a response. Was this the letter of 1 April you were referring to?

**Mr Beck—**Yes.

**CHAIR—**So it is three weeks ago. Can I just say that, in the normal course of dealing with ministers, three weeks is a fairly short time to get a response.

**Mr Masson—**I make the point that prior to that we wrote to the Prime Minister. We understand the Prime Minister may have raised the matter with the Treasurer. That was some time prior to that—I do not have it in front of me. So we had actually written expressing our concerns around those areas prior to 1 April, but we take your point about the time it takes.

**Mr CAUSLEY**—In this whole area and looking at the competitive world that we have been talking about—and there are some benefits because I do not think I have ever seen interest rates as low in my lifetime as they are today—the extreme competition is certainly giving a benefit to the community in one area. I refer to the study you did in Donald. I have been pursuing areas where someone might be able to step into a niche and provide a service. I do not doubt the evidence which says people like face-to-face access to their bank manager, bank or whatever—my electorate says the same thing. Given the competitive world we are living in, is there any evidence that these people are prepared to pay a service fee for face-to-face access? If someone else stepped into the shoes of the bank and provided that service, would they be successful?

**Mr Beck**—It is a specific question and I am not trying to avoid it, but we were surprised by the intensity and the fervour of the Donald 2000 Committee to do whatever was necessary to convince Mr Don Mercer, who was the CEO at the time, about what the community would do to support and retain the ANZ's full branch banking service there. I do not know whether the bank came back and said, 'Are you prepared to meet this fee structure?' I am not sure whether they answered that, but they were prepared to give a whole range of commitments about transactional activity, maintaining accounts and bringing business through. They identified everything that would be required as a proper response to make sure that the branch was profitable.

We had the same response in the Fitzroy area. I remember there was a campaign in Fitzroy when the bank was closing its Fitzroy branch. The local business community rallied, offered, promised and gave assurances and guarantees about continued activity, increased activity or whatever was required. They wanted the bank to just spell out what level of profitability was required. They were just wanting an opportunity or a chance to meet what might be a reasonable target or a hurdle. But in both those cases the bank's view was, 'No, we have taken a decision and that is it.'

**Mr CAUSLEY**—Given the fact that we have deregulation—and we are not going to stop that now; the genie is out of the bottle—unless the bank was profitable, the closure is inevitable sooner or later. They either do it now or, if they fail, then they do it later.

**Mr Beck**—The irony is that in both these cases the branches were profitable. All the evidence is that they are profitable branches. It is not as if they are making a loss. We would perhaps have more empathy if they were loss making concerns. In the most recent submission we tabled today we mention that the ANZ last month announced the closure of 28 further branches in Victoria and the loss of a further 1,750 full-time jobs, which is about 2,000 jobs when you take into account part-timers. Of those 28 branches in Victoria, five were located in major rural centres. Four of those five were the largest branches. Our understanding is that they were all very profitable branches. That is again the confusion. The area of accountability that we think needs to be brought home to these major employers is, 'What is the test? Why do you close a branch? Do you give the community an opportunity to respond to maintain the service?' Our evidence is that they are actually closing profitable branches.

**Mr CAUSLEY**—That would seem strange.

**Mr WILTON—**Mr Beck, you have stated in your evidence that the government needs to get together a policy in regard to accessing privately provided essential services. Obviously, you would include banks in that. Could you give us an overview as to what sort of policy you might like the government to deliver, what it is that you want it to do?

**Mr Beck—**I am not sure whether you will accept the analogy, but to the extent that we are now privatising telecommunications, as I understand it the government is requiring certain guarantees about the retention of locations and services in rural communities. So we are privatising, but by the same token we are saying that there is a community obligation of some sort in terms of telecommunications to retain regional access and regional employment. So if that is a legitimate analogy, we would like to rely upon that.

How it is actually translated, I am not exactly sure. It could be a requirement of the licensing or it could be some other mechanism that says, particularly for the major companies which are so very profitable, 'You are enjoying the benefits in the Australian community with your market dominance to reap these levels of profitability. Therefore, we expect as a community that you are prepared to at least provide communities with access to what we say is an essential service.'

If we are not prepared to go that far, at the very least we should be saying that rural communities should be given the opportunity to retain the service if they meet particular standards. There should not just be a unilateral judgment made in Collins Street without the community being given some opportunity to respond to meet the standard and given some time to demonstrate that the branch can be made profitable.

**CHAIR—**I think we have had a pretty good hearing. Thank you very much for coming along again. We certainly appreciate the effort that you have put into today's submission.

**Proceedings suspended from 2.56 p.m. to 3.28 p.m.**

[3.28 p.m.]

**COSSAR, Mr Geoffrey Allan, Director, G.A. Cossar and Co. Pty Ltd, 66 Clarinda Road, Moonee Ponds, Victoria 3039**

**CHAIR—**I welcome Mr Geoff Cossar 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 very serious matter and could amount to contempt of the parliament. The committee has received your submission, submission No. 2, which has been authorised for publication. Are there any corrections or amendments you would like to make to your submission?

**Mr Cossar—**No, there are not.

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

**Mr Cossar—**Yes. When I first learned that this inquiry was on, I gathered I may have been in a position—certainly not a unique position—to make some form of contribution. I would like to think I have an interest in the matters before this inquiry from a number of personal perspectives. As set out in our submission, I am a former rural dweller who is now a city dweller and a former banker who now finds himself acting for my clients sometimes against the banks.

In preparing our paper for this inquiry, I tried to draw on my experiences from each of these perspectives and somehow produce a paper which did not offer a view sympathetic to any one particular group. I also sought to utilise my studies of Australian commercial history and, I guess I should also add, some Cossar family verbal history in trying to ascertain if the recent past offered any ideas that may be useful in a contemporary context.

When we put together our submission, we assumed that a number of interested parties may be lodging submissions to this inquiry. So, rather than simply repeat what these groups were likely to put before you, we sought to present a paper which took a fairly novel approach.

In responding to the questions posed by this inquiry, I literally began preparation of our submission with a blank sheet of paper. I tried to do that so I would have no preconceptions. To be perfectly honest, before I began my research I really had no idea what sort of conclusions we would even draw. So I hope our submission is of some use to you all. I am happy to try and answer any questions you may have, whether they arise from our paper or relate to issues generally.

**CHAIR—**Thank you very much for that. I would like to follow up on the experiences that we have seen with schemes such as CreditCare, which seems, I think, to probably concur with a number of points in your submission. Are there any aspects that you could see that are different in your submission from what has been pursued with CreditCare, which I know is only operating in New South Wales and Queensland at the moment?

**Mr Cossar**—Not at all. I see that concept as perhaps an idea whose time is about to come. In the manner I have looked at the issue, I tried to take a very long-term approach. The situation that we are seeing at the moment with banks pulling out of rural towns I see as a part of a very long-term trend of rural aggregations and things like that. The small town I was born in suffered a great shock in the 1950s when the local radio station pulled out, and they started to ask themselves, 'What sort of a town have we become?' Over time, we see the second newsagent pulling out, the second butcher pulling out and the banks starting to pull out.

So, in a long-term sense, I would see that the banks would love the opportunity to be able to pull out of a lot of these places. If there was a vehicle like that credit union system or a major rural credit union organisation that could fill the void, then perhaps a lot of the issues that are troubling the banks at the moment about pulling out and troubling the residents in those towns could be more readily resolved. It may well even be that the banks would have a vested interest in helping an organisation of that nature survive financially so that they can actually withdraw their bricks and mortar services and branches and things.

**CHAIR**—Could you expand on that last point where you say that the banks may have a vested interest? With your experience of banking, what scope do you see for it?

**Mr Cossar**—When you are looking at your representation—and it is not just rural representation; it is clearly suburban as well—you look at all your branches, and what you are trying to do, in effect, is get a particular return on your funds employed. There may be a branch in Moonee Ponds that you consider, by your own internal mechanisms, is returning you 10 per cent on its assets. Even though it is a profitable branch, you have to ask yourself whether you are happy with that level of return.

I think what has been happening over the last 15 years or so is that, with the sophistication of financial modelling that we have been able to do with computers and things like that, a lot more data can be obtained about what individual branches are doing. There is a lot more capacity to look at the break-up of what a branch actually does. You will find, if you were a banker doing the business case, that maybe 10 per cent of your customers in a particular branch are ones that you would wish to retain; maybe 50 per cent are ones who, in terms of the return you receive from them, are equivalent to the costs of providing the service; and maybe 40 per cent are actually generating a loss.

So, if you are given the opportunity to pass those clients to another organisation—maybe with a different cost structure, maybe an organisation whose motive is not profit—immediately you have an organisation that does not have to add a level of profit or tax onto its charges, and it can naturally produce services at a lower cost.

**Mr WILTON**—Mr Cossar, do you think that the taking over, if that is the phrase, of rural banking services by credit unions following the departure of standard banking branch arrangements is proving to be effective? Do you agree with the statistics that were provided by the NAB earlier to the effect that, in the overall, there has been no real decline in the number of banking outlets, especially in rural and regional areas, despite recent closures?

**Mr Cossar**—What I would suggest is defining 'banking outlets'. I made a few references in my submission to those I consider are specifically affected by the closure of a branch or a face-to-face opportunity to conduct banking, and it is people who cannot write, for example, or cannot use the electronic services; people who are dyslexic and cannot use numbers; people who are deaf and cannot use a telephone. All these sorts of people cannot be compensated by an EFTPOS in a remote location. From, I guess, a global, strategic department in a bank, you can sit down and say, ‘Look, we’ve got three million points of contact with our customers.’ But it could be that only 600 of those actually involve people.

**Mr WILTON**—Do you think the fact that the up-and-coming, if that is the phrase, generation who are far more technologically aware than the previous generation, their fathers and mothers, will see a genuine demise in the perceived need for face-to-face banking in rural areas and, in particular, people’s dependence on the notion of trust that that has engendered over the years?

**Mr Cossar**—I was in New York in 1986 for a couple of weeks. There was a sign which basically said that, if you had less than $5,000 in your account, you go left to a machine; if you had more than $5,000 in your account, you were able to talk to a person. On the broadest statistics, I think Australia has the second highest number of faxes per head in the world behind Japan or somewhere.

We seem to be, on average, a very highly educated nation. We are a relatively new nation, a fresh nation, and we love toys. The banks, from my recollection, were absolutely rapt at the extent of acceptance when plastic cards first came in 10 or 15 years ago. People jumped at the opportunities, and there were people lined up at ATMs just to have a play with them, just to get an account balance. It was great stuff.

That does not help my mother. She would not use an ATM in a pink fit. As I said just recently, it does not help people who perhaps cannot read or write and have trouble with numbers. Older people as well do not like the technology. In 20 years time, maybe people our age who are in our 60s and 70s will not have a problem with it.

**Mr WILTON**—Do you think, though, for that reason, the evidence given by certain groups before this committee pleading for the retention of traditional bank branches is evidence that the committee ought disregard because inevitably new technology is turning the world towards non-face to face, non-personalised banking arrangements?

**Mr Cossar**—I honestly believe it is a situation where towns are getting smaller and smaller. I go back to the story about Charlton losing its radio station and its other services and some of its government services and things like that. You get to a point in time when the town is really shrinking and noticing things.

There seem to be, in Victorian papers in the last two or three weeks, the same sorts of cries from rural areas because they are losing their doctors. They are shrinking to such an extent that junior doctors or young doctors will not come out of Melbourne because there is not enough money up there, or there is too much work up there, or whatever. I think the doctor in Charlton at the moment is nearly 70 years of age. My mother’s doctor in Bendigo is 70 years of age. His problem is that he cannot lure anyone from Melbourne to take a job in Bendigo even.

It seems to me that these types of issues are increasingly happening as boroughs are becoming towns and towns are becoming shires. They are getting smaller and smaller. It seems that the banks, which used to be all over the place and which in the 1950s and 1960s gobbled up every other alternate form of financial provision, are themselves now withdrawing because they cannot profitably stay around.

**Mr CAUSLEY**—Can I explore this credit union area because there is no doubt that credit unions are providing a service where banks withdraw. There are still some statutory limitations, I believe. The Treasurer has said that they can issue their own cheques. They can provide a service of deposits, withdrawals and, if they can, issuing their own cheques. But my understanding is that, while they can give personal loans, their commercial loans are limited to 10 per cent of their business. That is New South Wales anyway, I do not know if it is different in other states.

**Mr Cossar**—Ten per cent per customer or per se?

**Mr CAUSLEY**—No, of their total business. I would think that, if they are going to provide a service in some of these isolated communities, that would have to be in some way changed.

**Mr Cossar**—We had a situation in Victoria a few years ago whereby the Pyramid group, which was three building societies, had under the Victorian Building Societies Act a restriction to provide not more than a certain percentage of their members' funds to commercial loans. My recollection is that they exceeded that fairly dramatically and got themselves into trouble.

**Mr CAUSLEY**—Was that the reason or was it bad management? I suppose that is a subjective opinion. Obviously, there would have to be some controls. Under our prudential systems I suppose there would be.

**Mr Cossar**—Perhaps one reason was that the organisation was a fringe dweller that took the sort of business that no-one else would take. Maybe it is a management problem as well.

**Mr CAUSLEY**—If it is the case, as you say, that there has to be some prudential control on them—and I do not argue that—then they are not going to be able to perform and give the service to the total community in some of these regional areas?

**Mr Cossar**—For example, most lending to individuals fo amounts under about $2,000 or $3,000 even 10 years ago when I was working at a bank were directed to Bankcard because it was cheaper and quicker.

**Mr CAUSLEY**—More profit, too.

**Mr Cossar**—I would suggest the profit arose because the costs were not there in servicing it. Banks in country areas 50 years ago gave overdrafts to only very good customers. If a credit union type organisation were to be fulfilling the role in rural and remote communities, you are assuming that the customers do not have access to those sorts of lending facilities from elsewhere. The banks would perhaps argue that their rural and their mobile managers can get out there and make a loan just as efficiently as a credit union could.

You would have to ask yourself, why then would you perhaps support or subsidise an organisation that is simply duplicating what the banks can already do to the customer's satisfaction. I guess what I was trying to get at is maybe you need an organisation which is prepared to do the transactional banking that none of the other players in the existing market really want to do and none of the new players in the market really want to get into.

**Mr CAUSLEY**—I heard this morning about these mobile managers, but I have never seen them.

**Mr Cossar**—They are pretty mobile.

**Mr CAUSLEY**—And I have not heard of anyone who has seen them either. If the service is what was put to us this morning, then yes it is a great service. But so far it is not very well known, anyway.

**Mr Cossar**—If you know your bank manager well enough, you should be able to ring up from 100 kilometres away and organise a loan on the phone. The problem is that, if someone has to come out to you and they do not know you, there is a lot of paperwork.

**Mr CAUSLEY**—I have a bank manager that lives nearly 700 kilometres way. I made a statement to one of these meetings that it is like farming in the south of England and dealing with a bank manager in Turin.

**Mr Cossar**—In the remote communities, people would have the same access to a solicitor and an accountant, wouldn't they?

**Mr CAUSLEY**—It is not a very satisfactory arrangement, I can assure you.

**Mr Cossar**—No.

**Mr CAUSLEY**—I do not know the person. I speak to them on the phone.

**CHAIR**—That might be an advantage.

**Mr CAUSLEY**—No, it is not. But it does get to the stage where the particular person you are dealing with, as good as they might be, does not understand the business.

**Mr Cossar**—That was a complaint when I was working in city branches. They said, 'The staff are always changing. We can't tell Joe Bloggs our story because he won't be here in three weeks time.' In an industry sense—and I do not know the current figures; they are probably worse now that there is so much rationalisation—in the early 1980s when I was preparing to go overseas and looking at Australian personnel, the banks in Australia had a very high staff turnover. It was something like 20 per cent per annum. So there was this enormous turnover of people.

Even well before the sorts of issues that you are looking at had arisen as starkly as they have now, that has been a concern of people. The personal element of banking has disappeared. With all the replacement by electronic technology and stuff like that, I suggest that it will disappear even further. You are actively discouraged from talking to a person these days because it is a high cost service, unfortunately.

**CHAIR—**I think we have had a good hearing and certainly we have a lot of material that you have already put in your submission. Thank you very much for that and thank you very much for coming along today.

**Mr Cossar—**Thank you for the opportunity.

[3.48 p.m.]

**CLEMENTS, Mr Ross George, General Manager Retail Financial Services, Colonial State Bank, 52 Martin Place, Sydney, New South Wales 2000**

**MORGAN, Mr Simon Andrew, Public Affairs Manager, Colonial State Bank, 52 Martin Place, Sydney, New South Wales 2000**

**CHAIR—**I welcome Mr Ross Clements and Mr Simon Morgan from the Colonial State Bank 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 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 No. 95 and it has been authorised for publication. Are there any corrections or amendments you would like to make to that submission?

**Mr Morgan**—No, thank you.

**CHAIR—**Is there anything you would like by way of opening remarks before we begin our questions?

**Mr Morgan—**Perhaps I can speak for both of us when I say that we are quite proud to be here today. If you have seen the paper we put forward, read about us in the press and heard about us from other people, you would be aware that Colonial is an unusual entity in that it was formed out of Colonial Mutual, which acquired the State Bank of New South Wales in 1994.

We have put our money where our mouth is as far as the bush goes. You would be aware that on 18 March this year we launched extending our rural franchise to the bush. We have successfully franchised our 228 branches in the metropolitan network and we have 110 branches in predominantly rural New South Wales which form our rural network and which, under the spirit of the sale agreement of the bank, were covered by a three-year moratorium as far as making any changes to that. We have now extended franchising to the bush and we have guaranteed that we will not leave any community that we currently serve without face-to-face banking. In the course of the three years that we have owned the bank, we have increased our number of branches by 15 per cent.

The reaction from the bush as a result of the franchising announcement has been twofold. Being members of parliament, you will not be surprised to hear that the media has latched onto the simple issue that the branch in the High Street will close as 'bank to close'. What the public have latched onto—and Ross will be able to give you some numbers about this—is that the bank is simply relocating in 48 of those 110 branches to share premises with another business. That sharing of premises with another business is not an agency, although 12 of our branches will become agencies in the traditional sense. Those 48 will share premises. We are talking about a minimum of 20 squares. We are talking about uniformed members of staff. We are talking about privacy areas where private conversations can go on. We are simply talking about putting two businesses under the one roof. That is probably the most revolutionary concept of it.

Also, we are putting ownership of that business in the hands of the local business person. The local business person could be a pharmacist, a newsagent or perhaps a real estate agent. It means that the local person in the town who has that business and shared two premises is responsible for managing the staff that was formerly ours. We currently have 260 staff servicing our 110 branches. That is an average of 2.4. It is not a significant network. We do anticipate that there will be job losses as a result of that. How many, we cannot put our finger on because it is up to the individual franchise owner how they will staff their branch. But, clearly, it is not in their interest to cut back the service because customers will not come in. I will now ask Ross to talk a little bit about the reaction from the bush, because I think that is most relevant to the committee's hearing.

**Mr Clements—**We have in fact conducted 200 interviews over the last six weeks with people who have put themselves forward as wanting to take one of these rural franchises. We have, at all bar five of those outlets, pretty much confirmed a candidate. In almost every one of those cases, the staff who are working in a number of those have been approached by the potential bank operator. We have had 250 applications from people outside of towns where we are to move the concept into those towns.

**CHAIR—**Is that 250 towns?

**Mr Clements—**No. We have had 250 applications from people outside. So it is 250 individuals, not 250 towns.

**CHAIR—**So how many towns does that equate to?

**Mr Clements—**I must confess that I had prepared for this, but I do not have an answer to that question. I can take it on notice.

**Mr Morgan—**We can get back to you.

**CHAIR—**We just want a rough idea.

**Mr CAUSLEY—**It shows interest though.

**Mr Morgan—**It does have a significant interest.

**Mr Clements—**It does. It has an incredible interest. In fact, beyond that, and Simon mentioned the Colonial Mutual Network, we are now looking to evolve the concept into a number of existing Colonial insurance franchised operations where they have what we believe to be the appropriate retail front. We are looking to move that concept into their operations and will in fact be extending our banking operations into those areas in many of the towns outside of where we are currently represented from about June onwards.

**Mr Morgan—**What we are putting forward is a great strategy. It is not about withdrawing from the bush, despite some of the media, which we have been belted over the head with. I notice in previous more metropolitan publications the committee has looked at the provision of multiple services from the one outlet.

The union of Colonial and State Bank has been quite significant, because what we are actually offering is allfinanz. We are not just providing banking but are providing funds management, insurance and banking services all underneath the Colonial group logo from these places. Effectively, as Ross was saying, where somebody is offering an insurance business, they will pay us to be trained. They will be tested to make sure they do not have a criminal record and all those issues.

**Mr Clements—**There is due diligence being done on all the candidates at the moment.

**Mr Morgan—**That pretty well brings you up to date, if you have any questions.

**CHAIR—**Thanks for that. It sounds like quite an exciting development. If I could pursue the acceptance. You talk about an increase of 15 per cent in the number of branches you have. What about in actual business? Can you give us a ballpark figure of how your businesses are growing?

**Mr Morgan—**If you could talk in the crudest business term which is profit, the return of the State Bank of New South Wales to the New South Wales government was $40 million in 1994. Colonial State Bank returned to the Colonial group $118 million for 1997.

**CHAIR—**I want to pursue this a little further. When you say in terms of profit, in relation to the customer numbers or turnover for actual business coming into these branches, can you give us some feeling as to what the changes have been there?

**Mr Clements—**We have undergone fairly intensive restructuring of some our operations in the last two years. We have certainly extended our electronic network—that is, our ATMs. With the open interchange that has evolved, there is certainly an increase in the use of those forms of devices for people doing simple transactions of withdrawal. We have also seen an increase across the wider geography of Australia of inbound calls in that we have two call centres. We have certainly seen an increase of calls coming into them.

In terms of over-the-counter transactions, we, like others, have tried very much to simplify those. In fact, much of our branching strategy has been around trying to get people to use other forms of devices for the simple withdrawal type transactions. We have seen some sort of fall off in that. I could not say that that is across the wider network. It certainly is more prolific in the concentrated metropolitan areas. In the regional areas of Australia where we have outlets, I would venture that many of our transactions are pretty much trucking along as they were historically with perhaps some sort of normal growth that you would expect. We are not necessarily getting a downturn or a run-off in those.

Certainly, what we are doing through initiatives with our staff is trying to redirect their energies to educate the customers to do simple transactions themselves but to deal with them face to face on what we believe to be the more complex ones where they are talking about some of the more sensitive issues around their business or around their own personal finances. Our experience is that, as it is for much of the industry, people are fairly keen or willing generally across the country to take money from anywhere, giving the money to somebody or have them deal with some form of their business. Therefore, they probably require to deal with someone personally, so we are seeing that run along pretty much as normal growth.

**Mr WILTON**—Your bank has the same commercial pressures as any other institution in the market. To what extent, if any, are your franchisees exempt or removed from the need to rationalise services in the face of competition, in the same way that other banks are doing?

**Mr Clements**—All of our franchisees are remunerated or rewarded on the basis of achievement of a KPI—key performance indicators—model which, in every case, is based on our needs and what we believe is achievable in the market. As we are moving forward, we are in fact getting agreement on their expense position and their revenue position. We believe that, in terms of our expenses, we are probably running at where we would like to be, so we are encouraging those franchisees to move to the traditional banking measure of economic performance—cost-income ratio.

**Mr WILTON**—How do you do that?

**Mr Clements**—By getting them to drive up sales.

**Mr Morgan**—I would like to point out a couple of things here. We did not just hand them the franchise as a group of branches and say, 'Here you go.' We introduced the allfinanz strategy which you probably heard a lot about, I imagine, in the course of the committee. We also physically relocated around 100 branches to more convenient locations. We also changed the mix of our branches—from some traditional branches to kiosks, mini-branches, whatever. We handed our franchise owners a refreshed, renewed business—not a traditional business that they had to make changes to. We made the changes to the network, then put them in place.

**Mr Clements**—When we sell or hand over the franchise to these people, we run through all their costs. We know what the costs are and what staff we currently have. We know what we think the market can yield us. The franchisees have no control over that at all. We manage all of that for them. We pay everything. Generally, we are getting them to drive up service standards and drive up the revenues through the door. In every other sense, we are controlling, through very tight fiscal controls, the way the organisation operates.

**Mr WILTON**—Have there been any instances in the rural regions whereby the local municipality has offered you any encouragement to set up? Have they offered you premises at reduced rates or business?

**Mr Clements**—We have in fact a number of shires very keen to share in the franchising arrangements that we have on offer at the moment. So there are a number of them, yes.

**Mr Morgan**—I read that in the *Australian Financial Review*.

**Mr CAUSLEY**—Not in this state, but in other states?

**Mr Clements**—Yes. We are trying to understand that. To be open with you, when we went into this, that was not an expectation that we had.

**Mr WILTON**—You may not be able to answer this, but what aspects of any agreement that you may enter into are essential for the bank before you agree to enter into any such arrangement? What is important to you in that sort of relationship?

**Mr Morgan**—For a start, I think it is a sort of due diligence issue to make sure that we are talking to the right individual. One issue, particularly to do with country towns, is that although somebody might never have been convicted they might have a reputation that was, perhaps, less than savoury. As an outsider you would not necessarily know that; but by the due diligence process you can turn that up. We have been through the process. We have in place 45 franchisees in the cities, so we have been through the process of rigorously selecting, training et cetera, those people. I guess we have some experience of testing to make sure that we have got the right individuals. I think—after the right individuals—then we get into the business questions.

**CHAIR**—What about population numbers? How small a community can you service with this system?

**Mr Clements**—We are down at fairly small communities. We have not used a community-type benchmark. What we have used are economic benchmarks around things like funds that are held in those sites, the amount of transactions and that sort of thing. Any outlet at the moment that has less than $10 million in accumulated liabilities or funds that we are holding we would actually move into these retail agent models, but anything above that we are leaving where they are, so that is a pretty small outlet.

**CHAIR**—I know this may be commercially sensitive but, when you talk about a franchise retail outlet-type thing, can you give us a ballpark figure as to how small the community could be and still be viable?

**Mr Clements**—Order of magnitude—a couple of thousand, I guess. Maybe a little smaller—a thousand, or something like that. I am trying to think of a town. I do not know the actual populations around these towns—you may be better informed than I in some of these things—but they range from Deniliquin to places like Wellington, et cetera. They are fairly small.

**Mr Morgan**—We are trying to keep an open mind as well. You would be well aware of the town of Trundle in western New South Wales where we were the last bank standing. Trundle is basically not viable as it stands. We have been approached by two local business people, and we are working with them to work out whether or not we can actually justify putting in one of our single site franchises. Now that will involve them having to get the town behind them, and we will set some parameters to say, ‘Okay, this is a two-year proposition, then we will review it or whatever.’ But we are trying to keep an open mind about it.

Similarly, when we did the sums, it looked like West Wyalong and Cowra would move from their existing format to the franchise format. We presented to the member for Lachlan, the local member out there, who presented a business case to us. We then went away and did the sums. We accepted that the sums were still on the shady side, the sums had not changed; it was just the scenario for growth in that area.

**CHAIR**—Marginal, not shady.

**Mr Morgan—**Pardon? I am not talking about the electorate there.

**CHAIR—**You said ‘shady’.

**Mr Morgan—**I beg your pardon—‘marginal’, yes. I was trying to get across to the sunny side of the ledger.

**Mr CAUSLEY—**That member is the Deputy Premier of New South Wales.

**Mr Morgan—**Exactly. He approached us in a businesslike fashion and said that he thought that we would benefit by the growth figures that he had for his electorate. He put forward a good case, and we basically put a challenge to the branch and to the community—the leases on those buildings are up in 2000—that, if they can get the figures over the line, the sunny side, to use my words, then we will continue in the existing format. So we are trying not just to say that we have all the answers. We used to be the Rural Bank; we appreciate our rural base. In some cases it is clear it is never going to change, and we accept that—and in most cases the towns accept that. But we are trying to keep an open mind.

**Mr CAUSLEY—**So if a bank was declining, would you approach the local community and say, ‘Look, unless you can get your figures up, then we have got to make some decisions in this particular area’? Would you approach them out from the period when you might consider closing?

**Mr Morgan—**I guess that is an issue for us in the future, but we have won quite a few brownie points in those towns where we announced what we wanted to do, and then the community galvanised themselves and came to see us, or the local member. I guess we have an open mind. We are in this to make a dollar, and we are not going to walk away from a profitable enterprise if it is there.

**Mr CAUSLEY—**If I want to borrow from your franchise, who do I deal with?

**Mr Clements—**It depends on what you want to borrow for.

**Mr CAUSLEY—**If it were a commercial loan for a business or farm?

**Mr Clements—**Small business specialists who operate in the area. There is absolutely no diminution in the sort of service that we are currently providing. I am sorry, this might get a little longwinded, but I will try to paint a picture for you. There will be absolutely no diminution. The service that we currently provide will transfer straight across. Currently, we have a group of small business specialists operating through all the regional areas in Australia where we are positioned. They will remain.

The book of business that currently is with that outlet transfers to the franchisee. There is a whole raft of service standards that they have to meet and, clearly, the person or the franchisee, for example, will not be able to deal with some of the more complex issues of leasing for agricultural type equipment. As it is now, each of those outlets will be serviced by small business specialists and each of our small business specialists have a group of customers that they deal with. That will remain; their customer base will exist and continue to exist.

**Mr CAUSLEY**—In your submission you talk about a spoke and hub situation.

**Mr Clements**—Yes.

**Mr CAUSLEY**—I assume that while the franchise might stand alone, it is also protected by the hub, is it?

**Mr Clements**—Yes, I will give you an example. We have a major branch in Bathurst. It is a fairly large branch and is one of our larger rural branches. We are going to structure our network on two levels. Firstly, the primary trade area level. This is a primary franchise level where someone will pay an amount of money for the franchise for that branch, that book of business, and up to about three or four surrounding branches. That person who runs that trade area and who owns that franchise will be responsible for all of those branches as one unit of business.

At the second level, it will be single-site operations. For example, I think Oberon will have a single-site franchise. There is a working relationship between the franchisee in a primary trade area and the single-site operator in terms of specialist service, things like that, and all the sophisticated or higher level, higher advice services come out of there into those type of operations.

**Mr CAUSLEY**—So you reserve the right to intervene if you have a franchisee who is not performing?

**Mr Clements**—Absolutely, as we do now.

**Mr WILTON**—Generally, what percentage of your staff would be full time and are fully trained? What percentage would be perhaps working part time, and part time for any other operation that the franchisee might run?

**Mr Clements**—You will think I am being flippant—I do not know; we have not tried it yet. We have a view about a lot of those branches in some of those rural areas. They vary, but the ones that are busy are busy all day. We think we will get an extension of hours and extension of service. With the ones where we are open only four days a week, a few hours a day—Macksville, or places like that—we see no change to that. Clearly, in those sorts of sites, if they take on some of our staff, I suspect the franchisee will get marginal benefit out of that by using those staff in other ways.

**Mr WILTON**—Thank you.

**CHAIR**—On a previous occasion, we heard from the Bank SA that they can set up a retail agency or give the hardware for a retail agency for around $2,000 plus the landline and so on. Are you in a position to give us some indication of what it would cost if someone wanted to become a franchisee of yours?

**Mr Clements**—A single-site operation ranges from $25,000 through $45,000.

**Mr Morgan**—It is between $15,000 and $30,000 and the profit they will make is $25,000 to $35,000.

**Mr Clements**—And, at the top, they pay $60,000 plus a $45,000 training fee in the larger metropolitan areas.

**Mr CAUSLEY**—You said $15,000 to $30,000.

**Mr Morgan**—Yes, depending on the size. For example, Macksville might be at the lower end of the scale.

**Mr CAUSLEY**—Yes, I understand you very well.

**Mr Morgan**—But Oberon, for example, might be at the upper end of the scale. So we will vary the fee, but it is between $15,000 and $30,000 to buy a single-site operation. Out of that, after costs, you will generate an income of between $25,000 and $45,000. I do not know Macksville well, but if you have, say, a pharmacy—and I am plucking that out of the air—and if it was marginal in terms of what it was returning, by extending this you have given yourself a new underpinning leg which will help keep the pharmacy in town as well, for obvious reasons. From that point of view, symbiotically, it works quite well.

**CHAIR**—Do you have any plans to expand into other states?

**Mr Morgan**—We have expanded nationally to all mainland states since Colonial acquired the bank.

**CHAIR**—But I mean further.

**Mr Morgan**—We have 250 people who have contacted us asking, ‘There is no Colonial State Bank in our town; can you move?’

**Mr Clements**—On one hand we do have a branch development plan for this year; it is nowhere near as vigorous as what we have done in the past—certainly last year—but it is in the order of about 12 outlets. And we are looking to get the geographic expansion that we are looking for through using, for example, Colonial franchise agents, some of whom are in North Queensland and some of whom are in Darwin. So the answer is yes.

**Mr Morgan**—Colonial franchised its life insurance business in September 1994. We pioneered franchising financial services in that sense. We have these people on board already who have been operating within our structures for some years, so it is an obvious match. We have worked out a way of getting them to deliver our services more efficiently.

**CHAIR**—I think we have had a pretty good innings; it has been very interesting. Thank you very much for your appearance before the committee today. Thank you very much to Hansard and to everyone else.

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

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 4.18 p.m.**