



HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON FINANCIAL INSTITUTIONS AND
PUBLIC ADMINISTRATION

Reference: Regional banking services

ADELAIDE

Thursday, 30 April 1998

OFFICIAL HANSARD REPORT

CANBERRA

HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON FINANCIAL INSTITUTIONS AND
PUBLIC ADMINISTRATION

Members:

Mr Hawker (Chair)

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

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

CAMERON, Mr Sandy, Chief Executive Officer, South Australian Farmers Federation, 122 Frome Street, Adelaide, South Australia 5000	457
DUNOW, Mr Bryan William, Coordinator, Goyder Credit Union Working Party, C/o 14 Kangaroo Street, Burra, South Australia 5417	470
KELLOCK, Ms Judith Ruth, Member, Goyder Credit Union Working Party, C/o 14 Kangaroo Street, Burra, South Australia 5417	470
KERRIGAN, Mr Stephen James, Chief Executive Officer, Regional Council of Goyder; Regional Council Representative on the Goyder Credit Union Working Party, C/o 14 Kangaroo Street, Burra, South Australia 5417	470
ORMSBY, Mr Maxwell George, General Manager, Group Treasury, Futuris Corporation Limited, Elder House, 27 Currie Street, Adelaide, South Australia 5000	448

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON FINANCIAL INSTITUTIONS AND
PUBLIC ADMINISTRATION

Regional banking services

ADELAIDE

Thursday, 30 April 1998

Present

Mr Hawker (Chair)

Mr Pyne

Mr Willis

Dr Southcott

Mr Wilton

Subcommittee met at 9.04 a.m.

Mr Hawker took the chair.

ORMSBY, Mr Maxwell George, General Manager, Group Treasury, Futuris Corporation Limited, Elder House, 27 Currie Street, Adelaide, South Australia 5000

CHAIR—There is a fairly long opening statement that I normally make at each day's hearing but, given that Mr Ormsby has very tight time constraints, I might skip over that. I will just say that the committee has been working very hard on this inquiry. It has received a range of submissions; in fact, there have been over 100 submissions now. We will be travelling to every state and also the Northern Territory to further follow up on many of those submissions. I believe that we have certainly had some very useful and very constructive suggestions coming to the committee.

Mr Ormsby, welcome. I remind you that the evidence you give at this public hearing today is considered to be part of the proceedings of 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.

Mr Ormsby—Just for the committee's information, Futuris Corporation Limited is the parent of Elders Australia Limited.

CHAIR—Thank you. The committee has received your submission which it has numbered 45; it has been authorised for publication. Are there any corrections or amendments that you would like to make to that submission?

Mr Ormsby—No, the paper remains as submitted.

CHAIR—Would you like to make a brief opening statement, before I invite committee members to proceed with questions?

Mr Ormsby—Thank you. Elders is very clearly a business with a heritage going back in excess of 150 years. We are very much committed to rural Australia; we are very much committed to ensuring that it is financially viable. The provision of an effective rural financial service is very much a priority for Elders. So we welcome this inquiry because, if the underlying outcome is that our client base is better serviced or more effectively serviced or the service being maintained, we see that as being a positive for the long-term future of rural Australia.

CHAIR—Would you expand a little on what you provide at each of your offices throughout regional areas?

Mr Ormsby—In summary, the Elders rural finance loan book is approximately \$½ billion. We have ambitions to grow that as prudently and as rapidly as practicable. We have exemptions under the Banking Act which allow us to carry on certain functions of banking without the general business of banking. In particular, we provide seasonal finance, which is pastoral finance or the traditional pastoral house finance. That is secured normally by what the banks refer to as 'perishable assets', which are livestock, mortgages, crop liens. We also have a growing term loan business.

As banking is reconfiguring itself, there is a void appearing. We are now supplementing that with our

term loan business. That is probably more complementary to the banks than as direct competition at this stage of our growth.

In terms of funding, we have what is referred to as 'excluded corporation status' which is extended to us by the Australian Securities Commission. That allows us to take retail deposits from permitted persons. 'Permitted persons' are very narrowly defined as rural producers. That book at the moment, which is a seasonally driven book, is approximately \$350 million. So we have assets of \$½ billion and deposits from rural Australia of \$350 million. We recycle 100 per cent of our rural deposits back into our rural loan book, which is obvious from the numbers.

In terms of services we provide, it is seasonal finance and term lending. We also provide a banking facility where they can issue cheques which are cleared through the normal bank system. We are nearing the introduction of electronic banking products. The first one will be a debt card which will allow our rural clients to have access to their accounts via electronic banking means.

I think it is important to understand that Elders looks upon a farming operation as a series of risks. There are risks with environmental issues, livestock, commodity pricing. Finance is one of those risks that we look at and for which we provide a service. And I guess it is important to us to continue to provide or facilitate transactions through our business, using our finance business.

CHAIR—Could you expand a bit further? You talk about the provision of cheques. Is that only to rural clients?

Mr Ormsby—Our business is very much focused around rural producers, and our excluded corporation status is very narrow inasmuch as we can only take deposits from rural producers.

CHAIR—Could a rural client, in fact, conduct the whole of their banking through Elders?

Mr Ormsby—Quite a few do. They find it more convenient for them because of other business they are doing through our network and the fact that we are in country towns where banks do not always want to be.

CHAIR—But it is restricted; even if you are in a country town where no-one else has a banking facility, it is still restricted to rural clients?

Mr Ormsby—Under our current structure and regulatory restrictions placed upon us by the Reserve Bank, it is very much narrowed to rural producers. There is infrastructure there which we believe could service non-rural producers providing that the circumstances were correct.

CHAIR—Could you expand on whether, if the circumstances were correct, you would be interested in taking over providing facilities or services for the whole of the community or other people in the community where that was required?

Mr Ormsby—If a third party, another banking institution, wished us to look at providing a service,

we would certainly consider it. The restriction or limitation is that our branches are not typically located in high-street locations. Particularly, we have merchandise business; we are required to keep those types of operations away from the main street because of the chemicals that we store. So we are not naturally located to service the pensioners or the people living in the town because we are not in the normal area where the retail traffic is flowing.

CHAIR—But if there were a need there which, presumably, would include being able to issue cash, would that be something that Elders might consider doing?

Mr Ormsby—We would certainly consider it. We are not a business which generates a lot of cash through its own stores, such as a newsagent or the local store. But I am sure that, if the desire were there, there would be a solution to the challenge.

Mr WILTON—You mention on page 2 of your submission that Elders supports electronic banking mediums which, as you say, will continue to lead the changes in the provision of banking services. Would you envisage that Elders, at some foreseeable stage in the future, might equip its 170 rural locations across the country with the sort of banking technologies that would really serve the needs of farming and rural communities?

Mr Ormsby—The answer is yes, and we are well down the track at doing that. Our branches or locations have live interrelationship through our mainframe, and it is just a matter of putting the right infrastructure over the top of that electronically.

Mr WILTON—Are these one-city locations basically fairly equally spread across the country? Where are you focused mostly? In which states are you most prominent?

Mr Ormsby—We are predominant in every state with the exception of Tasmania, where we only have a small real estate exposure. Our total of locations—because we have a real estate franchise network which is more metropolitan focused—is about 300, but the 170 are the branches spread throughout rural Australia.

Mr WILTON—Out of those 170 branches, do you currently offer on-farm financial expertise? Is that your primary role? Also, in what way would you envisage that your own banking services could be extended through those outlets if, indeed, you were fully operational in full-on banking?

Mr Ormsby—As I mentioned earlier, our approach to banking is actually an approach to the rural business, and we say that it is a business with a series of risks which have to be managed. In terms of environmental pasture improvement type issues, we have an agronomist and an agronomy service which we operate through our merchandise business; that is provided to the client. In terms of genetics for livestock where there is a risk in producing the right quality, we have our livestock experts. We have insurance experts who provide both asset and human type cover, which is certainly a risk. Finance is one of those businesses, and finance actually facilitates the transactions through the business.

I guess we differ from the banks. A bank is in a location purely to lend money or take deposits. We

are there to lend money and take deposits, but that is only one of six reasons why we operate. We also have our merchandise, real estate, insurance, livestock and wool businesses which make up a component of the risk management structure of a farming operation.

Mr WILTON—In saying then that you are different from the banks, would you therefore see there as being little, if any, need for you to engage in dialogue with the banks as to whether or not they might facilitate the provision of banking services at any of your outlets?

Mr Ormsby—We do have active dialogue from banks to try, I guess, to develop a strategic alliance which delivers meaningful financial services and is commercially realistic to us. We have active discussions taking place now which are about us not wishing to have to replicate or duplicate or create our own electronic infrastructure—as an example. We are having active discussions with a number of banks about using their electronic mainframes to apply over our client base so that we can deliver to them the electronic banking requirements which seem to be growing in importance to the rural producer.

Mr WILLIS—Just reading your submission and listening to what you are saying this morning, I am still not quite clear on what it is that you envisage as being a role you might play in relation to providing banking services in rural areas over and above what you already provide—which is, as you have said, some degree of banking services for some rural producers. Can you just be a bit clearer about what you see as being the role that Elders might possibly play?

Mr Ormsby—We do not see our priority market as the high-street business, the consumer type transactions; that is a type of business we are not in. Our priority is very much focused on the rural producer. The rationalisation of the banking infrastructure which has been going on for some time I think is causing some stress in terms of their access to meaningful services. The banks appear to be fairly open, saying that they are happy to service, or that their target market is, the top 20 per cent of rural producers. We believe that is an important part of the market.

But there is another 60 per cent out there who need empathetic lenders and a financial services provider. We see that as our key market—to pick up the vacuum or the void that the banks are potentially creating by withdrawing their branches and only focusing on the top end of the credit service. In our view, there is more to banking than transactional services. It is really developing a long-term relationship with someone who will be there and someone they have access to.

We have a very mobile work force through our total business. So our view is that we want to be more effective and ensure that the rural producer at all levels is being serviced effectively—not only the top 20 per cent, where the banks are focused.

Mr WILLIS—Can I take it from what you have said that you do not see Elders as being likely to seek a banking licence per se, but rather to perhaps form an association with a bank to enhance your banking services to a greater number of rural producers?

Mr Ormsby—I would never discount our desire to have a banking authority because simply, as our loan assets grow, it has to be funded. We fund it with a mixture of retail deposits and our own corporate

funding sources. For us to continue to grow that asset base and be more effective and more competitive, we need to broaden our retail deposit base. We need to go outside the 'permitted persons' definition.

Our interpretation of pre- and post-Wallis is that, to be a deposit taking institution outside of permitted persons, we need to fall under the supervision of a regulatory body such as APRA, which is coming in. We are not saying that we do not want a banking licence; we certainly have a strong interest in it. But it is really up to the Reserve Bank or its successor to have more flexibility than perhaps is obvious to us at the moment.

Mr WILLIS—So, at this stage, basically you are just considering your position as the situation develops?

Mr Ormsby—We were encouraged by reference to flexibility, which seemed to be very much a part of the Wallis inquiry. We just appear to have a different view from that of the Reserve Bank and other people as to how 'flexibility' is defined.

Mr WILLIS—Do you want to expand on that point?

Mr Ormsby—The key issue is that Elders is a banking business with their finance business with other products attached to it, such as wool and livestock. That relationship is a very important part of our banking business because it provides us with a client intelligence. We are very much cash flow lenders. So we need to have a good relationship with our livestock people and our wool people, because it makes us a more effective and prudent operator.

There is no other financial institution in Australia that has that client intelligence and I think there is a concern amongst the regulatory parties that, because we are not only in banking, there is the risk that our other activities might contaminate the banking business in terms of the prudential requirements. We argue that we have been doing it since 1839 and it is not something new, and that we can protect the interests of the depositors under a banking authority, though we are yet to convince other people that it is a practical way of providing an alternative form of finance for rural Australia.

Mr WILLIS—One way of coming around that would be, presumably, to separate out the banking financing aspect of your business from the rest of it, and still run it in the same premises but as a sort of stand-alone enterprise.

Mr Ormsby—But then, on our interpretation of the rules, you do run foul of the five per cent exposure of your tier 1 capital to non-financial services. For example, within the structure of Elders we have a herd of 340,000 cattle, which is a very important component of our total mix of business. When you put the value of that against the capital base, it does make it a bit prohibitive if you have to limit it to five per cent exposure of tier 1.

Mr WILLIS—It depends on the degree of separation, I guess. With the degree to which your facilities exist where those of banks do not, do you have any idea of how many of your 170 outlets are in towns where there are no banks any more?

Mr Ormsby—No, I do not, but I suspect that probably 10 to 20 per cent at the most would be in locations where a bank branch currently is not. The difference would be that in a few years time I suspect we will still be there, and the banks will not be.

Dr SOUTHCOTT—Just on that point: in those areas where you have Elders branches where there are no banks, there would be EFTPOS facilities already available in those towns. You have mentioned EFTPOS; you could put EFTPOS into Elders now, if you wished, couldn't you?

Mr Ormsby—Yes, we do use a form of EFTPOS. Our limitation is that we are not a cash business. We do not have a lot of cash flowing through our system because the income through the business tends to come seasonally through woolclips or crop proceeds. We are different from a local store or service station where cash is going in and out on a consistent basis. So, if we were to provide a cash service, we would need to source cash probably remote to the town, which then adds a significant cost.

CHAIR—Could you perhaps go into more detail for the committee about the sorts of costs you charge for providing these types of services? What would be the cost, say, per cheque for taking deposits presumably from sales of stock, and so on? What is the basic cost structure and where might it differ from that of a normal bank?

Mr Ormsby—We do not have a lot of cost in our structure. With our banking accounts, for example, we simply charge a fee of 56c per transaction. That really is a break-even exercise for us, because we are obviously being charged by the banks for their allowing us the clearing service. We do not have any fees on our deposits. Our deposit book starts at 24 hours. So we do not have any penalties on the clients, providing that they do it within the 24-hour notice. Our finance product on the asset side has a very nominal fee structure. In summary, we do not have a lot of fees. But we are prepared to do that because we have other parts of the business which are generating income as well as the finance business.

CHAIR—But, in terms of the finance business, presumably you have to be able to demonstrate that at least you are covering costs and making some sort of return.

Mr Ormsby—In terms of providing services, really it is a cost recovery exercise, and it is done for the banking accounts. In terms of the total finance business, yes, it is certainly a very profitable part of our business, and we work on a net interest margin like any other institution. Our margin or rates are perceived to be higher than those of the banks, and that is a historical perception. But, when you are not charging activation fees, loans fees and establishment fees on a comparative fully cost-effective basis, we believe that we are as competitive, if not more, than most banks.

Dr SOUTHCOTT—With access to things like rural finance—and you have 170 locations around Australia—do you also have mobile services?

Mr Ormsby—Yes. Basically, the way we operate is that we have a financial service specialist task force, called District Finance Managers, who are located in various locations—not every location—throughout rural Australia. They have responsibility for servicing a group of branches in conjunction with the branch manager, the livestock people and the wool people.

Mr WILTON—Elders is a name which for a century or more has generated a fair bit of trust within the ranks of rural and farming communities. Would you see yourself as having an obligation to educate people, even on a one-to-one basis, in the applications of what to them would be fairly new technology, be it EFTPOS, ATMs or other forms of electronic banking? Would that be your role if you were to introduce those forms of services into the area that you currently service?

Mr Ormsby—I do not know whether rural Australia would need a lot of education—and this is at rural producer level—because rural producers tend to be very innovative.

Mr WILTON—Don't they fear it though?

Mr Ormsby—I think certain sectors fear it, but that is not unique to rural Australia. In terms of the education process, I think with the way the world is going the new generation of farmers who are coming through will not need a lot of education. What they will need is just reassurance that, when the season goes bad or the wool price drops or there are some sort of changes in their farming pattern, they have a very flexible financier to come to who will say, 'Well, we'll continue to support you, but we'll do it this way.' I do not think the education process is significant.

CHAIR—On that lending basis and given, as you say, you have a much better appreciation of the ups and downs of agriculture, would it be fair to say that Elders are prepared to lend to farmers at a time when a bank might hesitate?

Mr Ormsby—Yes, the answer would be yes. Our prime security, as I mentioned at the beginning, is livestock, crop liens and wool liens which, in banking terms, they tend to refer to as perishable assets because, when they die, they get different forms and they disappear. But with our business, because we have livestock and wool underneath it all, it is very important to us to ensure that we manage those perishable assets, as the bank has referred to them. We therefore have more flexibility in terms of generating cash flow when things are tight for the rural producer. Also, we will create opportunities for them to get increased cash flow, where a bank will tend to sit back and hope that someone else will create the cash flow for the farmer to service their debt.

Dr SOUTHCOTT—One of the problems that the committee has been looking at is small businesses having access to places where they can deposit their cash and also get things like a cash float for the day. It seems that EFTPOS allows people to withdraw money, but it does not have any deposit facility; and ATMs are only likely to be in large towns because they need something like 2,500 people to make them viable. Do you have any suggestions as to how we can do this? There are suggestions of doing it electronically. But, given that a lot of business is still in cash, do you have any suggestions about how we can look at providing some sort of deposit-taking facility?

Mr Ormsby—Despite the move to electronic banking, cash will be around forever; it is the way the world operates. So it is a challenge. It is my understanding that a number of banks are trialling providing a cash service into locations. I honestly do not have a solution for it. With cash, there is obviously the cost issue, the security issues, the integrity of the people handling the cash. No, I just cannot give you a view on how you get cash into a small town. You would just hope—and under EFTPOS the principle is—that there is

enough cash in the town to be recycled to ensure that those who want cash have access to it.

CHAIR—Mr Ormsby, you have given us a very good explanation of the way Elders works in this area of providing finance for rural producers. I thank you very much for your time. We really appreciate the input you have given to the committee's hearings. I believe that it will play a very valuable part in helping us to produce what we believe will be a very useful report.

[9.50 a.m.]

CAMERON, Mr Sandy, Chief Executive Officer, South Australian Farmers Federation, 122 Frome Street, Adelaide, South Australia 5000

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

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

Mr Cameron—No, not at this stage.

CHAIR—Do you wish to make a brief opening statement, before I invite members of the committee to proceed to questions?

Mr Cameron—I think the submission we have made is self-explanatory. It draws from some previous work and from our efforts to contact nine rural committees and ascertain their views as to banking and other services in the community and the impact had by the reduction of those services. Since that time—and I believe that you have people from the Goyder Credit Union Committee coming to talk to you—we have attended an action meeting in Goyder, in Eudunda, to talk about this issue, and it just reinforced the sorts of points that we were making.

There is a great deal of concern particularly amongst older residents in rural communities that they are being left behind in this technological race. There is no doubt that the move by banks towards electronic delivery of banking services is achieving gains in terms of their economic efficiencies and, for those people who have grown up with or have an affinity for technology, is providing the type of services they require through mobile banking, EFTPOS, computer based banking, et cetera. But there is, as you are no doubt aware, a group in the community who have not adapted to that technology and are finding it increasingly difficult, particularly those people who are restricted in their ability to travel. So there are two sides to the argument.

One major point we would make is that the banking industry, as part of its attempt to address this issue, perhaps needs to look at how the banks not only go about evaluating branch closures but also carry out those closures. One point that came through very strongly at the Eudunda meeting was that there was a lot of pain associated with the decision to close the branch but, beyond that, there was a sense of frustration and anger at the way in which it was carried out—that, generally, communities are given very limited time in which to respond; there was very little, if any, attempt to consult with the community; there was very little, if any, attempt to educate customers about alternatives view, that is being handled all that well.

You will notice that one of our recommendations is that the banking industry, through the ABA perhaps, should develop a code of conduct to say that, if a decision is taken to close a branch or withdraw

any service in a rural or other community, as it may happen, there should be a clear process required to be gone through as to the period of notice, the type of consultation to be entered into, the training to be made available to rural customers, and just general information about the type of alternatives that are available to them. Beyond that, I have no further additional comment.

CHAIR—Mr Cameron, in your submission you mention that eight of the 10 communities you surveyed did not have access to either EFTPOS or giroPost facilities. Can you give us the names of those communities or tell us where they are?

Mr Cameron—I would need to go back through my papers; I could not give them to you off the top of my head. But that is something I could perhaps forward to the committee.

It was interesting in surveying those communities that, I think in my figures there I have quoted, most of them had seen closures of some kind, and some of them are being left on the outer in terms of not having access to those facilities. To local businesses, particularly in the smaller communities, taking on EFTPOS represents a real security risk. Whereas a bank is protected with very secure safes and security systems, the local businesses, if they are required to take on additional cash to service EFTPOS facilities, do not have access to that type of security.

I think in the report we stated that there have been at least three examples in recent times where break-ins with a cash loss had been suffered by a business. Whether that was going to happen any way or whether it was as a result of the fact that someone had worked out that this business, in taking on EFTPOS, was required to hold more cash, we cannot say.

CHAIR—In the work of the South Australian Farmers Federation, have you had any direct discussions with the banks about trying to forestall closures?

Mr Cameron—We have; we have had discussions on several occasions. In fact, we have had some indication from a couple of the banks that they were reasonably comfortable at this point in time with their distribution. But it is not difficult to see what is happening. As communities contract, the banks are increasingly looking to a hub and spoke distribution where they say, 'Okay, distance is no longer the barrier that it was 20, 30 or 40 years ago; we can quite easily establish a bank in a reasonably central or major centre and use that to service all the smaller communities.' That is the reality. We do not see any change likely in the trend towards a reduction in the direct bricks and mortar type delivery of banking services.

CHAIR—The committee has heard from Bank SA and also from the Pharmacy Guild who talk about the setting up of agencies. In the Pharmacy Guild's case, obviously it would be within the pharmacies. But also Bank SA talks of being able to set up a relatively low cost operation in areas that do not have any facilities. Have you pursued that at all with either of those two organisations?

Mr Cameron—We have not pursued it directly. I am aware of those discussions, and I think that would represent an excellent answer to the sorts of problems we are facing.

I am aware of a couple of examples. One example occurred in New South Wales, where an attempt

was made by a local council to encourage several of the major banks to come into a combined banking suite, where perhaps even the council employs someone to operate that suite. They obviously do not engage in active selling of services provided by those different banks. But they do provide at least basic access to cash withdrawal, cash deposit and a range of brochures. In fact, the response, as I understand it, was that the banks were not interested in the interests of competition. That is somewhat bizarre, given that they do not have a point of presence in that town, as it stands now.

But that type of development, whether it be through giroPost or the Pharmacy Guild, would be excellent. It would provide a real answer, we believe, to the sorts of concerns that have been raised in our submission.

CHAIR—Can you give us more detail of that instance in New South Wales?

Mr Cameron—Yes—and I wish I could remember the name of the town for you—I certainly can, and I can include that in some follow-up information to be sent to you.

CHAIR—That would be very helpful, and any experiences they have had with the banks, and whether or not a change can be seen in the attitude of the banks since this inquiry began.

Mr Cameron—We have made the point there that there is a lot of discussion amongst the major banks about the benefits of technology and the advantages it will provide. I must say that, talking to some of our more sophisticated farmers, they agree. They are saying to us that mobile banking services are a significant benefit; being able to access their banking accounts through computer based banking or through other EFTPOS infrastructure is good.

But that does ignore that group in the community, as described earlier, who perhaps are not up to speed with the technology. It seems amazing that they have not used the advantages of technology to seek out more pro-actively some of these alternatives—that is, delivering banking services through other businesses that have a wide distribution network and are already in the local town.

CHAIR—Yes. We have heard, for example, from Colonial State who will set up franchises in parts of New South Wales.

Mr WILTON—Mr Cameron, your submission is really comprehensive, and I certainly commend you on it. We have heard from people like Don Argus from the National Australia Bank who, you may have read, talked at some length about the need to reduce fixed costs in terms of rural bank branches and the fact that banks were not there to offer a social experience.

You say in your submission that, basically, the preference for rural customers would be face-to-face banking. But if the NFF(SA) had its druthers, what would be its preferred banking option, given the limitations that Mr Argus has put on you? In saying that, I mean, if you could not have fixed bricks and mortar banks in rural towns offering face-to-face banking, what would be your preference?

Mr Cameron—It comes down to access to basic banking service. If we could have our option, it

would be to have that basic banking service through the bank of a customer's choice delivered through Australia Post, through the giroPost network, through the pharmacists or through a combined banking suite. That, as we understand it, just from an economic point of view, would reduce their fixed cost. It would mean they still had that basic distribution so that, presumably, both ends—both the needs of the banking customer and the bank itself—could be met.

As I have said, perhaps in 20 years time this might not be an argument. In 20 or 30 years time, that group in the community who perhaps are unaccustomed to EFTPOS and other computer based or electronically delivered banking services may well have come up to speed.

But it is the here and now that concerns us, and the fact that the bank closure as such, as a complete closure, means that it simply encourages that process of regional decline where people say, 'Well, if I can no longer withdraw cash or conduct my basic banking in this town, it just encourages me to move to the next larger centre where I have a choice of banking and a choice of other services, retail and others.'

If it came to a bottom line and you are asking us what we want, what we would like to see is for people to be able to access those basic banking and other financial services in their local community, and that the banks and other organisations, such as the Pharmacy Guild, get pro-active about saying, 'Well, how do we achieve that; how can we perhaps work together as opposed to being in competition?'

As I have said, it just seems amazing to me that they have not been able to come up with a concept of running a combined banking suite. Yes, there are concerns about competition; but, at the end of the day, how can they be concerned about competition when they do not have a point of presence?

CHAIR—I think those sentiments are very much shared by the committee, and that is exactly what we are trying to push with this inquiry.

Dr SOUTHCOTT—One of the problems with giroPost is that the banks want geographic specific locations.

Mr Cameron—Yes.

Dr SOUTHCOTT—They also feel that it is more costly than EFTPOS. From your survey of communities, what were the size of the eight communities that did not have EFTPOS facilities?

Mr Cameron—They were all small communities; they were all approximately 500 or 600 people.

Dr SOUTHCOTT—Did they have, say, just one general store, or did they have a range of—

Mr Cameron—Yes, a small general store. I can give you—and I should have included it as an attachment—a demographic breakdown of those communities. But Australia-wide, if you look at the figures, approximately 600 communities are without access to a financial institution. That was taken from an NFF discussion paper. You may already have heard that figure quoted.

Dr SOUTHCOTT—Are there any problems with getting EFTPOS into those communities? We have seen, since 1995, that the number of EFTPOS facilities out in the bush has really exploded. Are you finding in these communities that it is viable to get the banks to establish an EFTPOS at the general store?

Mr Cameron—You would need to talk to the individual businesses. I did not really go into whether or not it was an economically viable proposition. We did hear some resistance from those saying, ‘Well, the banks are simply passing on their costs to distribute financial services to us’. Increasingly, you are finding those businesses charging 75c to a dollar per transaction to cover their basic transactional cost. Although I am not exactly familiar with the EFTPOS cost breakdown, it does come at a cost to the business itself.

But, as I have said, the other concern that was raised was one of security—and that was a concern. If you are in an isolated community, you make a fairly good target if you are having to carry \$3,000, \$4,000 or \$5,000 in cash.

Dr SOUTHCOTT—I suppose what I am saying is that, if there were an EFTPOS facility in these small communities, it would help some of the problems.

Mr Cameron—Yes.

Dr SOUTHCOTT—It would not allow that business to make deposits, and access to business lending and so on could be done perhaps through mobile banking facilities. But it should be possible to get EFTPOS into those small communities which do have a store.

Mr Cameron—Yes, that is true. I think, however, in South Australia what has really generated the explosion of EFTPOS has been the explosion in poker machines more so than anything that is being done pro-actively by the banks.

CHAIR—Do you want to expand on that point?

Mr Cameron—No, that is for another inquiry.

Mr WILTON—You legitimately have said that your concern about the provision of banking services is for the here and now. In the hope and estimation that the next baby-boomer generation of farmers will be technologically aware, what needs to be done in the short term to get the aged rural population up to speed on technology? Why do you think they fear it? Also, what role, if any, do you see the NFF playing in that educative process?

Mr Cameron—The obvious answer is fear of change, as well as fear of technology in terms of the ability of that community group to take on or accept and adopt electronic delivery. As to what can be done to encourage them, as I have said, from talking to bank branch staff in Eudunda, for instance, who only fairly recently found out that their bank was to be closed, those people knew every one of their customers extremely well. They knew their habits; they knew how they conducted their banking. Basically, they knew whether or not those people were going to be able to use and access EFTPOS, as an example.

If those staff members had been left in place for a period of two or three months as part of the process to close that branch, they quite easily—with that branch closed or using it as a base office—could have gone out into the community and taken those people and said, ‘Right, I’ll set up your EFTPOS card. Let’s go and withdraw some cash, let’s go and deposit some cash and let’s go and talk to the local businesses about how you can conduct your banking.’ It might take some time and it would certainly cost some money. But it would mean that the bank, whichever bank it might be, could hold their heads up and say, ‘We’re doing all we can to meet the needs of, firstly, our customers and, secondly, the rural community itself.’

It also comes down to consultation, talking to people saying, ‘Look, the reason we are doing this is because of finances; however, we’ll still maintain a point of presence in this centre, and we’ll do all we can to help you in learning about this technology; these are your other options in the town itself.’ The banks were invited to attend that meeting at Eudunda, and the actual attendance was fairly underwhelming. I think that really signifies a bit of a culture that perhaps needs to change in the banking industry itself.

Mr WILLIS—Do you see EFTPOS as being much of a solution to this problem? The evidence that is coming before us seems increasingly to be saying that, sure, it is better than nothing, but it does not provide very much of a satisfactory solution because you have a cost which is incurred by the provider of the EFTPOS service, which is a charge on him by the bank, which he passes on to the customers—and sometimes with a considerable margin on top—and there are limitations on the amount of cash that people can get. I think we had evidence about a limit of \$50 and a charge of \$5. So it is a rather expensive way to access your money. But I think rates of 75c to \$1.50 are much more common.

Also, these smaller facilities in small towns obviously are concerned about having people coming in and demanding large amounts of cash because, as you say, that raises the amounts of cash they hold. They are worried about holding too much cash and, anyway, they have to go and get the cash from somewhere. In all those circumstances, do you see EFTPOS as being much of a solution to this problem?

Mr Cameron—I think EFTPOS does very well what it is designed to do—that is, large volumes of simple transactions. It obviously does not provide an answer for those people who want to explore alternative accounts, who perhaps want to set up a savings program, who want to talk to a manager about lending. It cannot and will not do those things. It is the best option of a bad range of options, basically. It will certainly replace people’s basic need, and it is replacing people’s basic need, to gain access to cash, until we move to this supposed cashless society.

But, in terms of any other type of solution, it cannot and will not do it, unless they move towards these—and I am not sure of the technology—EFTPOS machines that do provide you with on-line access to a banker. But at this point in time, if it is not viable to run a branch in a small town, it will not be viable to run one of those sorts of machines. So, yes, what you are saying is quite correct: it does in some part replace banking services, but only in a small part.

Mr WILLIS—I think many of your recommendations are very sensible. But, in terms of a solution to the problem of withdrawal of services—rather than just a more rational and humane way of withdrawing them, which some of the recommendations go to—your submission seems to focus on giroPost. GiroPost, again, has lots of limitations, as you point out yourself.

Mr Cameron—Yes.

Mr WILLIS—It seems to me that one of the problems with trying to expand giroPost, apart from the sheer fact of getting the larger banks who are not part of it to come onside—and that is a commercial decision on their part; it cannot be legislated for or required—goes to Australia Post. They are increasingly being put in the position of becoming a sort of substitute banker, and they obviously are rather concerned about that.

It is the smaller towns which are likely to have the bank fallout, obviously; and it is the smaller towns where the transaction numbers in the post office will be relatively low. That makes it uneconomic for Australia Post to put in electronic equipment to provide the banking service. So 1,000 post offices out of some near 3,000 have no banking facilities because they are in small towns. To put them in would obviously be a considerable cost to Australia Post, because they would be running the whole thing at a loss.

Is your recommendation, basically, that Australia Post should put in uneconomic services and provide this system at a loss? If not, then are you acknowledging that there is not much scope for Australia Post to expand its coverage?

Mr Cameron—From what I understand, the cost of setting up the on-line service through Australia Post is around—and it is a rental arrangement—\$1,200 per annum. That does not address the viability on an ongoing basis per transaction but, for \$100 a month, a post office can be put on line in terms of offering the range of banking services.

In comparison, look at the money that is being spent. As an example, a budget of over \$½ million was put towards putting in one-stop shops in three centres across the state of South Australia. Those services, as we understand it, are basically already provided in those communities to a greater or lesser extent.

So looking at the relative cost of funding giroPost into those centres specifically where banking services perhaps are not provided or not to an extent that the community would desire, I believe that it is relatively small and certainly does provide a realistic answer. I do not have the data in terms of exactly how many transactions it would take per day, week, year, month or whatever it might be to maintain that service in an Aussie Post branch as a viable going concern. But, if you look at the actual cost in terms of just having the facility in place, it is relatively small and reflective of the fact that the technology has gone ahead in leaps and bounds.

One of the things we thought extremely ironic in conducting the survey that we did was that, in a number of towns, you could not open and operate an account with any one of the major banks, aside from the Commonwealth Bank for a personal facility, but you could operate a bank account with the Bank of Hong Kong. We found that quite strange.

Mr WILLIS—That is because they agreed to be part of giroPost. For them, it expanded their branch network enormously—from just a few branches in capital cities to suddenly about 2,000. So it makes sense for them but not necessarily so for those who already have a branch structure.

Mr Cameron—Yes, that is right. There are all sorts of limitations; we accept that. But, as I have said, surely with the leaps that technology has made and with the desire to make sure that the real community is not left behind in terms of provision of these basic services, we can come up with a solution—be it through pharmacies, grocery stores or Aussie Post branches.

Mr WILLIS—The \$100 figure that you have mentioned is not one that I remember as being put to us before; Australia Post talked to us in terms of the number of transactions per month that they would require before they would provide a service.

Mr Cameron—That figure came when I actually spoke to giroPost as part of this submission. You are quite right; they were saying, basically for an Australia Post franchisee to say, ‘I want to put on-line giroPost services in place,’ the base cost was \$100 per month or \$1,200 per annum. From there, obviously you have your variable cost from which you then have to work out whether or not it will be viable, depending on the number of transactions.

Mr WILLIS—I think the issue about the cost to Australia Post is relevant here. Australia Post itself is being put under increasing pressure through increased competition, so it is being forced to become more market oriented. At the same time it is doing that to ask it to pick up an array of uneconomic services does not quite gel. So there are considerations there for government, obviously.

Are you aware of the kind of approach that is being developed in Victoria through the Bendigo Bank? That is, it is trying to develop a concept of community banks in which the community, where there is no longer a banking service or not going to be one, works together with the Bendigo Bank. The community basically puts together or pays for the premises and provides working capital, covers the salary costs of the staff. But all the training of the staff and the provision of post-counter sort of banking services are provided by Bendigo Bank and it sort of becomes a branch of their banking system. Also, there is a sharing of profits, et cetera. Are you aware of that kind of concept?

Mr Cameron—Only in the broadest sense.

Mr WILLIS—What do you think of it?

Mr Cameron—I think it certainly has potential. I believe you have the Goyder group coming in at 10.30. They obviously will talk to you about their attempts to do something similar. I think they have approached two or three credit unions and been rejected by all of them on the basis that they did not believe an operating branch of a credit union could be viable in the sorts of centres they were talking about.

But, yes, I think that has potential and it is something that should be explored. It is not something that we have done any work on particularly. The only work we have done is a little bit with the Goyder group, looking at or approaching the various credit unions. As I have said, the response we had from them was no different from the response we had from the banks, and it reflects the fact that those businesses are becoming much larger and are much more focused on shareholder value as well.

Mr WILLIS—One of the problems with credit unions that is coming up is that, where they are very

small, people such as rural producers, and so on, do not see them as being likely to be able to satisfy their needs. So for business type bankers there is a sort of reluctance, I think, to get too involved—at this stage of development anyway—with smaller credit unions; maybe they would with larger ones. Banks perhaps are more likely to be able to, in the short term any way, provide the kinds of services that such people as your members would require.

Mr Cameron—As I said earlier on, I would have to say that, when we talk to our farmer members, their main concern in terms of the decline in banking services is about its impact on their local community. Not most of them but a reasonable percentage are being serviced through mobile banking services now, and they are quite enjoying the experience. Obviously, they have a concern for their community; they are concerned about regional decline as an issue. So they will react against bank closures on that basis.

Mr WILLIS—Is that mobile banking largely aimed towards the larger farmers?

Mr Cameron—Yes, it is.

Mr WILLIS—Can you tell us exactly what services are provided by that mobile banking?

Mr Cameron—I will have to reach back into my working experience. Essentially, negotiation in terms of changing-lending facilities, or negotiating deposit arrangements, or just the normal discussions that would have taken place in the bank manager's office, take place on farm with a banker using a laptop computer to conduct the normal sort of analysis that they would do in their office. So, essentially, it is taking the banker's office to the farm. That is a significant benefit but, as you say, it is more directed to particularly the top 20 per cent of farmers.

Dr SOUTHCOTT—Apart from that, what problems with mobile banking are you experiencing amongst the farming community?

Mr Cameron—I think the only problem that we are really experiencing is, as I have said, that it does tend to be targeted to the larger and more sophisticated farmers. That, in a sense, is reflected in the level of competition in rural banking. If you look at the promotion and marketing strategies and the direction of all of the banks, they are tending to focus very much on the top 20 per cent.

Also, similar to the rural communities with older people, there is a group who are perhaps not quite so fortunate to be in the top 20 or 30 per cent who are perhaps missing out on that level of competition. It is reflected in new banking products being delivered which offer significant benefits, but you have to borrow a minimum of \$200,000, \$300,000 or \$400,000 to get access to them.

A related topic but also of concern to us is that we have not seen the generic Aussie home loans approach being delivered. It would be delightful to see an Aussie farm loans, for instance, or something along those lines where they are not perhaps being so specific about saying 'We only want this target group of customers.' It would service the rest. When new ways were worked out to deliver services and improve services, it would not be done on the basis of just focusing on a particular group in the community. So, if there were a problem with delivery in terms of mobile services, it would be related to that.

Dr SOUTHCOTT—Are you finding that the Rabo Bank is driving competition in that top 20 or 30 per cent—the real cream of rural finance?

Mr Cameron—I would have agreed with that up until about 12 to 18 months ago. I think, from what we have observed and the new products that have been developed by other banks and Elders and other finance service providers, they are starting to catch up with the Rabo Bank. But, again, with Rabo, I think I am correct in saying that it is a \$250,000 minimum loan. It might not seem significant, but essentially what it is saying is ‘We want the larger operators and we want the more sophisticated farmers.’ So it does have its restrictions; not everybody can borrow from the Rabo Bank.

Dr SOUTHCOTT—Regarding the farmers who are not in the top 30 per cent, do you have any suggestions that could improve the mobile banking that would be available to them?

Mr Cameron—No, because, as I have said, it is related more to the marketing strategy than the actual delivery of the service itself. The service is well accepted, but it is not as widespread as we would like it to be. So no, not to improve the actual service.

As far as we are concerned, the main game in terms of rural lending is new competition—introducing and encouraging new competition. We spend quite a deal of time talking to members about ensuring that they are getting access to the most competitive banking service available, and not just accepting year in and year out that, when the banker comes out to renegotiate their loans, they are automatically going to offer them the best deal; that they need to be pro-active, prepare a tender document and distribute it. Perhaps it should not be done every year, but money is just another farming input really and you should test the market accordingly.

CHAIR—Just on that point, next week the committee will have the Governor of the Reserve Bank before us. He has emphasised in past hearings that he wants to see that competition moving mainly into small business loans. Would you say in your experience in the last year or so that that competition has actually improved the lot of—or has it not really affected—your members?

Mr Cameron—I think in the last couple of years it has improved but, as I said, not to the level we have seen improvements in competitive banking of course to the housing sector and also to the small business sector. One the problems farmers have is most small business people will own a house and in fact use that house as the collateral for their loan. That automatically virtually gives them access to a whole new level of competitive borrowing. I can tell you as a banker, as a former bank, yes, that small business people will not come to you saying I want to borrow money for my business. They will come to you saying I want to borrow money on my house which I am intending to use in my business. It gives them access to competitive type home loan products which

Dr SOUTHCOTT—Do you think that the banks trade on the loyalty of farmers?

Mr Cameron—I would say yes, but I think that is changing, and I think it is changing in that farmers are starting to see increasingly that that loyalty, not in all cases but some cases, is misplaced. As I said, they should not simply accept that the deal they are being offered is the most competitive deal available. We are

seeing increasingly now farmers being pro-active saying, 'What do I need to do to get a better deal?' Obviously, there is a huge variation in the industry between banks and individual bankers, but that is one feature that we are seeing changing quite dramatically I think.

CHAIR—You have very good recommendations here. You have talked about local call access customers forced by banks to has the South Australian Farmers Federation followed this up at all through the NFF?

Mr Cameron—The NFF have a copy of the submission. We have also followed up a number of our recommendations with the I must say that we have a very constructive association with the ABA and farm debt mediation for South Australia. They have expressed some interest in a couple of our recommendations particularly on the code of practice although I think they will take some pushing on that particular one. That is a recommendation we will be taking up through NFF more pro-actively. At this stage they have our recommendations and we have not seen any action either way.

CHAIR—You talk about branch network on the basis of profitability and efficiency. I think we would all be sympathetic with that in practice. What response do you expect with that?

Mr Cameron—In practice I do not expect a response to that. It seems fairly obvious that the banks are running commercial businesses; they have to be concerned about shareholder value. They will make share decisions on operational costs, conducting or having a branch business against potential savings available in consolidating that distribution. My discussions with the bankers has been—they are obviously guarded in their comments about whether or not future branch closures are being considered. But in reality they are, and in reality they will continue to move to a hub and spoke model, in my view. In our view, from the farmer's perspective, it is really just a matter of time and how we replace those services, whether it can be through community banks or another model.

Mr WILLIS—Do you think the banks have some sort of a social responsibility to leave something behind when they leave town; rather than to just walk out and let what happens happen, should they do something positive to leave a financial service behind them?

Mr Cameron—Obviously. Whether you call it a social responsibility or a customer service responsibility, I think that should be a basic tenet of their considerations. It is too easy just to consider this from a purely economic rational view, without considering the needs of those people. People have contributed over a long period of time—in some cases generations—to the viability, profitability and assets of that particular institution. They might not be a shareholder, but in many senses they are.

So, yes, I do believe that there is a responsibility there; whether you call it social or other, I guess, is a matter for semantics. We would like to see them being more pro-active. To some extent, some of the local managers of banks, even managers at a state level, would like to be more pro-active. But these decisions are not being driven at a local level, obviously; they are being driven at a far more senior level than that. So it is an unfortunate situation at the moment.

CHAIR—Mr Cameron, thank you again very much for your submission and for coming along today.

We certainly appreciate the work that you have put into assisting the committee in its deliberations.

[10.35 a.m.]

DUNOW, Mr Bryan William, Coordinator, Goyder Credit Union Working Party, C/o 14 Kangaroo Street, Burra, South Australia 5417

KELLOCK, Ms Judith Ruth, Member, Goyder Credit Union Working Party, C/o 14 Kangaroo Street, Burra, South Australia 5417

KERRIGAN, Mr Stephen James, Chief Executive Officer, Regional Council of Goyder; Regional Council Representative on the Goyder Credit Union Working Party, C/o 14 Kangaroo Street, Burra, South Australia 5417

CHAIR—Welcome. I remind you that the evidence you give at the public hearing today is considered to be part of the proceedings of the parliament. 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, which has been numbered 34, and authorised it for publication. Are there any corrections or amendments you might like to make to your submission?

Mr Dunow—No.

CHAIR—Do you wish to make a brief opening statement, before members of the committee proceed to questions?

Mr Dunow—I think it would be appropriate to just point out that there is no such actual organisation as the Goyder credit union; it is not incorporated in any way. It was merely a name we gave to a group of people who set out to ascertain the need or the desire for a working party in the Goyder local government area to work towards creation of a credit union.

Mr Kerrigan—Also, the National Bank have withdrawn their banking service in the township of Eudunda; there is no residual service they have left behind. Also, there has been a slight change to the structure of the National Australia Bank in the Burra township as well. Those developments have occurred just since earlier this year.

CHAIR—Thank you. Perhaps, just for the benefit of the committee, you could tell us a little more about the working party. How many people are involved in it? What areas are you covering?

Mr Dunow—The area covered, roughly, is from Eudunda in the south to Terowie in the north. A number of public meetings were held in that area at, I think, Hallett, Burra and Eudunda. They were all very well attended. It was very close to being unanimously agreed that we should look into the creation of a credit union. That was seen at that time as being the best way to ensure that, when the banks withdrew their services from the area—which seemed to be the trend—we would be prepared with some alternative arrangements.

The original coordinating committee appointed a working party. Those people met on a number of occasions, roughly monthly, with a view to exploring the ways in which a credit union might be created. After very little success, it was concluded at the meeting in November that it was not a viable possibility; we just could not create a credit union. We began looking into the alternative of getting an existing credit union involved in the area.

CHAIR—You have obviously had a fairly frustrating time. You have had dealings with CreditCare; what was your experience there?

Mr Kerrigan—The council were very concerned about the withdrawal of banking services. When one of the elected members suggested that a credit union be explored, and that there were several business people and residents interested in alternate banking services or financial services, an approach was made to CreditCare. They provided a very rosy picture about how simple it is to create a credit union.

CHAIR—Create one or get an agency to come in?

Mr Kerrigan—No, to create one. They also provided interstate examples of where credit unions were encouraged to come into towns that had lost their banking services. It was made quite clear at the start that they were going slightly outside their brief in providing some assistance to the townships in the Goyder Regional Council in that we had not lost our banking services yet. But they recognised that what we were trying to do was a little bit pro-active in that we knew it was going to happen sooner or later, so ‘Let’s have a look at what our alternatives are now, so that we can prepare the community before the crunch comes.’

When the CreditCare representatives attended a public meeting at Burra, it was generally felt by the community that, although it was going to be an uphill battle, the creation of a credit union was possible. Unfortunately, the rose-coloured glasses were taken off us, once we started meeting with the financial advisers.

We also spoke to two other credit unions. One of them that assisted us greatly was the SA Police Credit Union. When they explained the type of financial checks and balances that were required, it became obvious that there was no way that we, as a community of about 4,000 people, were going to be able to meet those requirements and be forming our own credit union. It was disappointing from the working party members’ point of view, but also I suppose we were realistic.

Then we started going to the others and inviting them to advise us on how they could assist us—these are the credit unions. The police credit union was trialling an innovative approach at Yorketown, where some business people had received some training. They were setting it up and covering the costs in the setting up stage. The unfortunate thing was that both the two main towns, Burra and Eudunda, in the Goyder area did not have the same type of business people with those skills prepared to set up a similar type of branch network for the police credit union. I think the people in Yorketown had experience in banking, insurances and financial advice, and they just got some training from the police credit union and then were able to set up their business as an adjunct to their existing financial planning business.

CHAIR—Do you feel that part of the problem is that you still have a bank branch in both Burra and

Eudunda? Burra still has one, and Eudunda has just lost it; is that right?

Mr Kerrigan—Eudunda still has limited service from the State Bank.

CHAIR—And the National has closed?

Mr Kerrigan—Yes.

CHAIR—Do you feel that may be part of the problem—that there is already a service in both towns?

Mr Kerrigan—I think it is. We may have got more positive support after the banks had closed. But I still do not think it would have achieved the parameters which the credit unions had said would be needed for them to set up a branch in those towns. We both have franchise post offices which offer the commercial facilities or private facilities for the Commonwealth Bank and Adelaide Bank. So people did not feel that there was that sense of urgency that some of us on the committee felt.

Mr WILTON—Would the committee's view be that the facilities existing in addition to the banks, such as giroPost and EFTPOS, would be cannibalising the existing banks in those towns to the point where it is foreseen that they will also close in the foreseeable future?

Mr Dunow—They would have some effect. I personally bank with—because my needs are only private—the giroPost.

Mr WILTON—How do you find it?

Mr Dunow—That suits me fine. I can get money on a weekly basis as I need it, and I can bank the odd cheque. But because my needs are fairly basic, just day-to-day banking, it suits me.

Mr WILTON—What has been the uptake of the giroPost in Burra?

Mr Dunow—I do not know.

Dr SOUTHCOTT—What charges are being levied on you for using giroPost?

Mr Dunow—None at all with the Adelaide Bank with whom I bank. Provided there is no alternative Adelaide Bank service in the vicinity, then there is no charge through giroPost. So I do not pay anything for deposits or withdrawals.

CHAIR—Do you have to keep a minimum balance?

Mr Dunow—No. Also, I have a substantial overdraft with them when I need it.

Dr SOUTHCOTT—How widespread is EFTPOS in Burra? How many facilities would there be there?

Mr Kerrigan—We have five hotels in Burra of which, I would say, at least three or four have EFTPOS. We have a supermarket which probably would be the largest EFTPOS outlet. There are three petrol-roadhouse outlets which have it as well. I understand that a couple of other businesses have facilities for payment by credit with the swiping of the card through the machine.

I think the difficulty that we have in Burra is slightly different to the difficulty at the other end of our district in Eudunda. When the ANZ Bank closed, they left behind an agency in a fruit and vegetable shop. Some of their clients did not believe that was an appropriate place to do their banking and felt that there was some insecurity in the confidentiality of their transactions.

When the National Australia Bank closed their branch in Eudunda, they just closed it and walked out. That left a limited service at the State Bank and also the franchise at the post office. When the council was looking at the credit union set-up, we were toying with the idea of making our branch offices the site for a credit union location.

We are actually going through now the same process that the banks have been going through—that is, rationalising our offices. So we are not in a position to criticise the banks for rationalising when we are having to go through the same process. But we would not leave our communities without some type of service centre. Also, we are now being forced, I think, to look at payments of our council rates and payment of our creditors by electronic means, so that we do not have cheques and paper transactions at remote sites.

Dr SOUTHCOTT—What are the mobile banking facilities like in Eudunda and Burra? What does someone do in Eudunda or Burra if they want access to rural finance, if you have a small business and want a loan?

Mr Kerrigan—They have to contact a bank.

Ms Kellock—Yes, they would have to contact a bank manager from a branch elsewhere and make arrangements, I would think.

Dr SOUTHCOTT—Would bank managers from elsewhere come and visit them in Eudunda or Burra, or would they go to the next centre?

Ms Kellock—They probably would come and visit, I would think.

Mr Dunow—Actually, a fourth person was going to be here today. But his bank manager is seeing him today on the property and reviewing his position. So, certainly those services are available to at least substantial clients anyway.

Dr SOUTHCOTT—In Burra and Eudunda, are there any facilities which allow small businesses to bank their takings at the end of the day? What do they do with their deposits?

Mr Kerrigan—One of the businesses in Eudunda drives to Nuriootpa to do their banking, because they did not want to change to the Bank SA because the bank's hours did not suit their business hours. I do

not know how they get it there. I suppose they just hop in the car at or near the end of the day and drive there.

We are in the same situation with the council. If we rationalise to two offices, we have our account with the National Australia Bank in Burra but we will get cheques and paper transactions from the Eudunda branch. They will have to be driven up to Burra before they can be banked.

That is one of the things, I think, we were concerned about—that it seems the Commonwealth Bank appears to have a bit of a monopoly with their franchises in Australia Post. If the other banks could get involved or if they had a one-stop shop where they had a bank branch that serviced three or four banks but using the same staff and the same premises, maybe that is a way you could overcome the costliness of having the three or four branches in the one small town. You would have one branch that served several banks. I think that is what we are looking at Australia Post to try to do eventually.

Mr WILLIS—Australia Post is not stopping the other banks from being involved in giroPost. They do not want to be involved, unless they can select the towns in which they provide the service and not have it universally provided—and Australia Post is objecting to that kind of selective involvement at this stage. So you have a stand-off which obviously is not helping to resolve this problem.

You spoke about the parameters. It is surprising that an area with that population base cannot meet the parameters, as you put it, required to establish a credit union. Do you think it is simply because not enough people are prepared to transfer their business from the existing banks to a credit union, which would obviously perhaps change in the context of there being no such banks if they were to withdraw?

Mr Dunow—It is probably going to require an answer from the three of us for that one. A small survey was done of some of the residents to indicate whether they would be prepared to do business with a credit union that was just formed or a new one that was brought in. We seem to have had plenty of responses for deposits and mum and dad type banking, where you put the money in at the start of the fortnight and use it all up by the end of the fortnight before the next pay goes in. But there was not enough interest in having loans with a credit union, and a lot of the farmers with whom we spoke had some major concerns about splitting their financial responsibilities between a day-to-day banking service and a loans service.

Mr WILLIS—Did they think that perhaps the credit union would not be big enough to service their loan requirements?

Mr Dunow—We could not give them answers about what the credit fees or interest rates would be either, and whether they chose to go with the credit union would depend on those things.

Mr WILLIS—What was the council's attitude towards its own banking? Was it prepared to transfer to the credit union?

Mr Kerrigan—The council, with the Local Government Finance Authority of South Australia, was looking at directing our investments through the credit union. But we did not believe that in the first couple of years the credit union would have been able to cope with the number of transactions that we as a council

had to put through.

In discussions with the Local Government Finance Authority, they were considering investing a portion of their rural council investment portfolio in credit unions that benefited rural Australia, especially in South Australia; or, recognising that we would not put all our investments through to the Local Government Finance Authority, we would, in fact, put hundreds of thousands of dollars, staggered through the year, through the credit unions so that they had some funds and also some investment opportunities.

Mr WILLIS—If your day-to-day banking was through the credit union rather than through the bank, it would seem to me that that probably would have enhanced the viability of the credit union concept considerably.

Mr Kerrigan—The council was not unanimous in its full support of a credit union concept. They needed more information. Also, they did not want it to be the council credit union; they wanted it to be the community credit union. That was because we could not guarantee at that stage—we were going through amalgamations—there was not a further amalgamation around the corner which might have dragged the centre of the council to another major town.

Mr WILLIS—You say, ‘The framework for credit unions has been affected by the Wallis report giving greater flexibility.’ Would one of you like to expand on that?

Mr Dunow—I think it was our general understanding that the Wallis report tended to raise credit unions in their level up towards the banking standards. This, of course, made it more difficult for us to meet those standards. So that was the thought behind that.

Just adding to what Steve has said: the difficulties were compounded by the fact that these days people need a fairly comprehensive banking service. You cannot start off half-cocked. We had to come in with credit cards and cheque accounts virtually right from the start. The whole thing just became non-viable with such a small population base, even though the area is quite big.

Mr WILLIS—I am not quite following your point about the Wallis report and that credit unions are making it more difficult. I would have thought the fact that the difference between a credit union and a bank is considerably reduced by the Wallis report would enhance confidence in credit unions. In other words, if they are subject to the same prudential supervisor as a bank, as they will be in the future, and able to transact pretty much the same array of financial services, provide their own cheque facilities and all those sorts of things, which are all in train, why doesn't that enhance community confidence in credit unions rather than make it more difficult to set them up?

Mr Dunow—It does certainly, as you say, enhance community confidence in the credit union. From that point of view, it would have been perhaps easier to encourage people to go into the credit union. But the downside of it was meeting those stringent requirements, as required of the bank, made it so much more difficult to set the credit union up in the first place. When we first started, credit unions were not charging the types of fees the banks were. But now we have noticed a trend towards the credit union starting to charge similar financial transaction fees.

Mr WILLIS—They are subject to some of the same pressures, of course, particularly on interest margins being pinched. As they are pinched, they look at making up the difference by raising fees. That is what is happening with the banks and, clearly, that is what is happening with credit unions.

Mr Kerrigan—After the public meetings, the people who were really keen on the credit union concept which we had spoken to—and not all of them were—started to get the impression that credit unions were moving up towards the level of banks, rather than being there and being restricted and not being able to do some of the things banks could do. But, once credit unions got to the same level as banks, people did not see a credit union as being much different from a bank anyway. They did not have the view then that a credit union was any better than a bank, whereas before they had felt a little bit more in tune with the management of a credit union and that they were part of it.

After the Wallis report and all the fees going in and the types of prudential pressures that would be put on credit unions, they felt that it was not something they knew about well; they felt that credit unions were starting to remove themselves from their customers.

Mr WILLIS—I must say that I am surprised to hear that, because the credit union movement generally regards the Wallis reforms as a great plus for them. They see it as a great enhancement of the potential for business opportunities for credit unions. So it is surprising to hear you say that it has been seen almost as a negative.

Mr Kerrigan—It was the concept coming from the people who had been members of credit unions for a while and wanted to see a local one set up in our area. One of them was a police officer who had been part of the police credit union for a while. They had seen the benefits from being a credit union member, more so than being a customer of a bank.

Mr PYNE—As you actually have a bank in Burra, your position is better than that of many of the rural communities from whom the committee has heard evidence. What are you doing now to create the right environment for the bank to remain there well into the future, rather than worrying about the fact that there is change, that banks are—just as is the council—trying to rationalise their services in order to make profits and keep their heads above water? What are you doing now in your community to ensure that the bank has the environment to remain viable in Burra? I assume that most of the accounts from the other banks have moved to the National Bank in order to continue to have banking services.

CHAIR—That will be a question; have they?

Mr PYNE—Have they?

Mr Kerrigan—We feel that they would have done that when the ANZ Bank closed. But there are still a lot of their customers who are using the agency at the fruit and vegetable shop in Burra. We believed that, once the National Bank closed their office in Eudunda, the State Bank would get the majority of their clients. What happened was that half the clients did not transfer and have gone onto electronic banking facilities with the National Bank; they are staying with the National Bank.

Mr PYNE—Using telephone banking?

Mr Kerrigan—Yes.

Mr PYNE—So, if some of the clients from the previous banks that which have closed are using electronic banking and with GiroPost being used by some of the previous clients, what sort of recommendations do you want the committee to make to improve the situation? The banks make these decisions about what branches will remain open, and it is up to the consumer to show that there is a reason for the bank to remain in a community—and not just through sentimentality, but actually through dollars in accounts making it viable for the bank to remain there. I would be interested in knowing what your community is doing to try to make it viable for the bank to remain.

Mr Kerrigan—We have had some discussions both in council and with some of the business people. The responses have been that, if they wanted to keep the banks there, they had to stop using EFTPOS and needed to go into the bank on a regular basis and do transactions over the counter.

As small communities, we need the people to work in the banks to fill up the netball and football teams and other committees and groups we have that make a town in the country more interesting. The convenience factor of EFTPOS is what is taking away, I think, the transaction numbers from over the counter. The council cannot see an end result other than the banks withdrawing all their services in rural South Australia.

Mr PYNE—But, if that is what the consumers want to do, what is the alternative to, say, no EFTPOS in country centres? I am trying to get at what you want the government to do. If the consumer is voting with their feet by using EFTPOS, then aren't the banks responding to consumer demand by saying that consumers do not want to use the services in the bank? If that were not so, obviously consumers would be going into the bank and using those services.

You have also made the point that not all the customers from the ANZ went to the National and from the National to the State Bank. You have said that they are happy to use electronic banking.

Mr Kerrigan—I am not sure that I would say they are happy. I do not know whether they are happy or not. But banks are definitely making it more cost effective by operating telephone and electronic banking than conducting your business over the counter. We in the country do not pay as much as you in the city would. In country areas the fee for transactions over the counter is only half that charged, I believe, in city areas.

Mr PYNE—I am an advocate for keeping more banks in the country, but they have to be there for a reason, not just because people want to have a bank in their town. I think what Don Argus said to the committee was very hard line, but it is what the management of banks are thinking. If people are not using the services, they are not going to keep the banks open.

Mr Dunow—All the banks, I think, are actively encouraging people not to use the over-the-counter services. I know that Adelaide Bank is up around 70 per cent of electronic or telephone transactions. That is

the trend, and it is going to continue. I do not know whether, as a community, we can really do anything positive to ensure that the bank itself stays there.

We are really more concerned with ensuring that your committee, in whatever conclusions it reaches, takes into account the sorts of concerns that we have encountered along the way. As I mentioned earlier, the initial thought to create a credit union just to service the community really, I guess, fell in a hole because, as we made some investigations, we found that we could not do it—that is, provide the services that people want, which are already in existence.

We just have to recognise that banking is going electronic or telephone or whatever. And we have to ensure that we have some adequate service left in the town, whether it be through giroPost—and that would certainly suit some people—or through the introduction of a credit union perhaps, as the banks further retract their services. I do not know, but that is the trend, and we have just got to meet it.

Ms Kellock—One of my main concerns is our elderly population. Of our population, 18.8 per cent is between 60 and 94. I honestly do not think this age group will feel comfortable with electronic banking. Some of those people are just too old; they like a face-to-face over-the-counter service where they can see their money and have things explained to them. To me, these elderly people are a big concern. Some are retirees, some are pensioners, but all handle money I suppose. That is a real worry, these elderly people.

Mr Kerrigan—There is the other end of the spectrum as well—as we were discussing today coming to the committee—and that is that there does not seem to be much emphasis by the banks or the community in general on encouraging the younger ones to learn about saving; it is all about buying things on credit. There seems to be a gap about teaching the younger ones in our community now the benefits of saving up for something and achieving that goal. If we are relying on electronic means all the time, then we need to find some other way of encouraging the school kids to start saving.

I do not have any suggestions for that, but I am sure that the banks would be able to come up with something. My impression is that the banks seem to have ignored the fact that sooner or later those kids will be their clients and, if they only do the right thing by them and encourage them, they will be with them and perhaps have some loyalty. I do not know whether the banks are worried about consumer loyalty now; they will just offer the best package and hope to get people to take advantage of that. I have probably been with three or four banks over my working life, and it has mainly been based on what bank has been available in the town.

CHAIR—Mr Kerrigan, I come back to a point that Mr Willis was raising with you earlier. Are there any restrictions in South Australia now on councils using a credit union wholly to provide their banking services?

Mr Kerrigan—I believe there are not.

CHAIR—Do you know what sort are restrictions there are?

Mr Kerrigan—From memory, it had something to do with guaranteed funds. I am not sure whether

the guarantee through CreditCare will be sufficient for that. The council can invest short term with other organisations, but we are restricted. I do not think our ratepayers would appreciate us playing the stock market, and I do not think they want us to get into high risk capital type things. Without being able to put my figure on the section in the act, I understand that we are required to bank with a registered bank.

CHAIR—So that is still a restriction in South Australia?

Mr Kerrigan—Yes.

Mr WILLIS—I think the states have agreed to change that. Tasmania, we know for a fact, has passed legislation to enable local government to ‘bank’ with credit unions. I understand that all the other states have agreed to do that as part of the general process of reform that fits in with the Wallis reforms.

Mr Kerrigan—We were waiting to see what was going to be in the local government act review, which is due to be released today. We were going to check whether the financial arrangements and restrictions were going to be the same. A lot of things will be going on in the local government act review in South Australia, and the financial side will be one of them.

Mr WILLIS—Mr Pyne questioned you earlier on what you are actively doing to try to retain what banking services are actually there. If you have one of those towns with an agency in a fruit and vegetable shop and you have a bank branch, would it not make sense for the town to actively encourage people to use the fully fledged banking service rather than just use an agency because that just simply encourages eventually the loss of the branch that is there? It seems to me that local government has a leading role to play in this, and being pro-active seems to be a pretty important thing to do in those circumstances.

Mr Kerrigan—When the ANZ closed, we moved our banking requirements from there to the National Bank because at that stage the Bank of SA did not have full facilities and they did not have a bank manager. So we did not really know what they were doing. But the National Bank indicated to us that they could not see any foreseeable change in their structure. That is what we have done as a council.

Also, I am on several committees in the community. When they were with the ANZ Bank and had their accounts and investments with it, they actually changed to the National Bank because there were more people employed in the National Bank than there were in the other one. That is what the community does with some of their community funds, but the individuals are the ones who will dictate more than anything else.

Mr PYNE—What about farmers and businesses who might do their banking through Adelaide? Do you think there would be much of that—people who have been encouraged by the banks to do their banking when they come down to the city for whatever reason? They might have a meeting here, so they go and do their banking, they have their meeting and they go and do their shopping, et cetera. Would it be possible to encourage them to stop doing that and put their banking back in the country banks?

Mr Kerrigan—We have discussed that with a couple of farmers. Some of them have started to use the Elders financial facilities a bit more. Usually, most of the time, farmers have a reasonable debt level for improvements and machinery purchase. They have that with banks they have been with since their father or

grandfather was involved with a bank. So some of them are with Westpac and the Commonwealth Bank which do not have branches in our area at all.

Mr PYNE—But they are making that decision, aren't they; they have to stay with the bank in the city rather than move to one with a branch in their country town.

Mr Kerrigan—Definitely.

Mr PYNE—So if, for whatever reason, that closes down, in effect, they have been part of that decision. I am not criticising them for that. But the government can only do so much. It is really up to the consumer to put their money where their heart is, if you like, which is in their country bank. If they are going to do their banking in the city, it is very tough for the bank to say, 'Right, we'll just keep this country bank open for the hell of it.'

Mr Kerrigan—I can see where you are coming from there.

Ms Kellock—I am on the land. I myself do not know of any farmers who do their banking in the city. They may do it in a place like Clare, where there is a Commonwealth Bank. And that is a service you cannot get through the post office because obviously it is a business account. But, personally, I do not know of anyone who banks in the city. So perhaps you do, but I do not.

Mr PYNE—When people get to certain levels of turnover, I just know that banks try to encourage them to do their banking through major centres, such as Adelaide, for example. They say to them, 'Well, when you come down to Adelaide for your meeting, it's easy; just pop in and see us and do your banking here; we have all the facilities you need here.'

The banks are encouraging them all the time to centralise all their finances. When you have a big debt, you basically often do what the bank asks you to do, because you want to avoid fighting with the bank—which is understandable. But it is just another way perhaps of trying to encourage more money to go through the local bank rather than the city bank.

Ms Kellock—I think some of those banks, though, which once may have stored a lot of their deeds or whatever in the country, may now store them in Adelaide. But I believe that you can still work through your country branch and let them do the rest, as far as where they want to store such things.

Mr Kerrigan—The National Bank's structure in Burra changed slightly with the existing manager being put into loans and large business. He operates from Clare but still lives in Burra and can operate out of the Burra branch. But his main role is to go and visit their clients on site. So he is on the road most the time. The manager with whom they replaced him did everything else but the large loans. So the National Australia Bank seems to be taking their business out to the property to ensure that they keep their customers and provide that customer service.

Mr WILLIS—As we understand the aspects of people staying with a bank that leaves town, they do so not just through customer loyalty but also because of the fact that they can be subject to substantial fees

for winding up their business with one bank and joining another; another reason was stamp duty. These are factors that we will give some consideration to in the report.

Mr Kerrigan—We have been asked what we expect of the government. When we became aware of the inquiry, I suppose we were hoping that you would find an answer somewhere in Australia, and we look forward to seeing your report findings. We are only looking at it from a very small viewpoint, and you must be getting a much greater view of the whole impact of what is happening in rural Australia now. We hope that you will have an answer.

CHAIR—I think you will find that the committee will have a range of recommendations. We have certainly seen what is happening in different regions in Australia, and there have been a number of ways people are tackling this problem. There is no one single answer, but certainly there are quite a few being suggested, and we are certainly exploring all those. I thank you again very much for coming before the committee today, and also for your comprehensive submission.

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

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

Committee adjourned at 11.15 a.m.