



HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON FINANCIAL INSTITUTIONS AND
PUBLIC ADMINISTRATION

Reference: Regional banking services

CANBERRA

Thursday, 2 July 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

AVELING, Mr Anthony Robin, Chief Executive, Australian Bankers Association, Level 42, 55 Collins Street, Melbourne, Victoria	554
CARROLL, Mr Stephen, Associate Director, Australian Bankers Association, 55 Collins Street, Melbourne, Victoria	554
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HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON FINANCIAL
INSTITUTIONS AND PUBLIC ADMINISTRATION

Regional banking services

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Present

Mr Hawker (Chair)

Mr Albanese

Mr Mutch

Mr Anthony

Dr Southcott

Mr Martin

Mr Willis

Committee met at 10.19 a.m.

Mr Hawker took the chair.

RITCHIE, Mr Todd, Director, Economic Policy, National Farmers Federation, 14-16 Brisbane Avenue, Barton, Australian Capital Territory

SIMPSON, Ms Rosemary Anne, Director, Projects, Farmwide Pty Ltd, National Farmers Federation, 14-16 Brisbane Avenue, Barton, Australian Capital Territory

CHAIR—I declare open this hearing of the House of Representatives Standing Committee on Financial Institutions and Public Administration's inquiry into alternative means of providing banking and like services in regional and remote Australia to those currently delivered through the traditional bank branch network.

Today I would like to welcome Mr Todd Ritchie and Ms Rosemary Simpson from the National Farmers Federation to this hearing. May I remind you that the evidence that you give at the public hearing today is considered to be part of the proceedings of parliament and the giving of false or misleading evidence may be considered to be a contempt of parliament.

The committee has received a submission from you that we have designated No. 22. Are there materials that you would like to table?

Mr Ritchie—No.

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

Mr Ritchie—Can I first of all apologise for the non-appearance of Brendon Stewart who has contracted the flu and could not get down here from Queensland. Please accept my apologies on his behalf.

The National Farmers Federation welcomes the opportunity to make a presentation to the financial institutions and public administration committee inquiry into the provision of banking services in regional and remote areas of Australia. In addressing the issue the NFF has in many ways gone back to basics to ask some fundamental questions that appear not to have been addressed when the financial system was first deregulated in the 1980s.

The banking and financial intermediation is a fundamental input into the business of agriculture. The banking system is the major source of finance for rural business in Australia. Banks provide 80 per cent of institutional loans to the rural sector, while the proportion of farm debt supported by banks is around 60 per cent.

The three most outstanding features of agriculture in relation to the financial sector are: firstly, agriculture is largely made up of a large number of relatively small businesses; secondly, the land from which the production is extracted forms a major portion of the

asset structure, generally around 75 per cent of total assets; and, thirdly, the amounts borrowed are generally quite low relative to the total value of assets.

Agriculture is currently going through a difficult period as a result of widespread drought, generally low commodity prices, international trade wars and the Asian crisis. At a time when it needs support from the banking system, a succession of rural bank branch closures has led many in the industry to assume the banking system is deserting it. While technological innovations and the arrival of alternative credit providers may fill the void left by these closures, this is by no means certain and in any case it will take a significant period of time.

When banking was deregulated in 1983 there was little or no attention paid to the changes that would be unleashed by deregulation. Consumers were unprepared for the fundamental shift in the corporate culture of banks when they moved almost unnoticed from being service providers to the sellers of product. In order to better understand the issues raised by these changes the NFF has recently published a report which looked at the banking needs of rural and regional Australia. Rather than run through those conclusions, that report is part of our submission. In order to save time today I will not go over that again.

Implicit in the discussion of whether impediments exist to rural and regional banking is the assumption that there is a cost to rural and regional Australia that is either unfair or cannot be alleviated by markets as they operate at the moment. In other words, there is an implicit concern that banks are not able to provide a service that is deemed appropriate for regional Australia, or excessive regional bank closures are imposing costs on these communities over and above the loss of employment when the bank closes.

The question also arises as to whether the availability of and access to the cash system which forms the basis of transactions in any economy is a fundamental right of all citizens. Just as the government is called upon to provide education and health services, it can also be argued that universal access to the payment system and the medium of exchange is a government responsibility.

This responsibility has been recognised in the past through such devices as government restrictions on bank product pricing, quantitative lending guidelines, directed institutional lending and government ownership of banks. These issues have also been raised by various sources. In discussing the issue of rural banking in its submission to the Wallis report, the ACCC noted:

Access to financial services is an essential requirement for participation in modern society. All consumers need mechanisms for storing and saving money and for receiving and making payments to third parties. In this sense, basic banking services have much in common with central utilities such as electricity, gas and water. Barriers to accessing such services due to bank closures can significantly detract from the quality of life and social standards of individuals and families.

I would also note that on 24 March 1997, the federal Treasurer, Mr Costello, stated:

Banks have legal obligations and they have ethical obligations, and the government believes that they should observe both . . . at the end of the day, we take those consumer obligations seriously . . .

Within the Australian financial system, banks possess some unique features. These include the ability to create credit, the existence of an implicit government guarantee, and the existence of some monopolies either in markets or via access to the cheque clearing system. It is possible to argue that these factors alone create a privileged position for banks which, therefore, should entail a community service obligation and the provision of rural financial services. If a community service obligation existed, it would be incumbent on the government to ensure provision of a reasonable level of banking services in rural and regional Australia. If no community service obligation were found, it would be left to the market to find solutions.

Wherever a perceived market outcome is deemed inappropriate by the government, it is possible, and in most cases desirable, for the government to enter into the market in an attempt to alleviate this failing. Such government action can cover a spectrum from black letter law at one extreme to the sanctioning of industry self-regulation at the other. Even if the existence of a community service obligation is rejected, the government can reasonably argue that banks have a community or social responsibility to act in the interests of these communities when withdrawing services.

A number of options exist within the area of government regulations. I will quickly cover these. They include that the government could legislate for a certain quality or quantity of rural bank branches. Within that legislation, we could introduce terms such as 'tradeable branch quotas' and the definition of basic financial services. Government could also legislate for state or regional specific licences in order to create geographic monopolies to create economies of scale that would enable rural bank branches to remain open. The government could also look at imposing rural and regional obligations on foreign banks. It could also look at funding for organisations such as CreditCare and other Department of Primary Industries and Energy programs which would foster alternative provision of services in rural Australia. It could also look at forced divestiture of assets of banks that are in the process of closing rural branches.

Should the government decide that less prescriptive measures—so-called quasi-regulation—are appropriate, the following options could be considered: a charter of social responsibility specifying bank branch closure procedures; ACCC monitoring of financial sector competition, or consumer protection for new banking technologies. These are but three examples of some of the processes that could be looked at.

If it is decided that no social obligation exists, the issue of the current market for

the provision of banking services must be looked at. In a perfectly competitive market, the number of suppliers would be large, with each having a minimum of market power and competing on an equal footing. In contrast, the rural lending market in Australia is dominated by a tightly controlled oligopoly of the major trading banks which supply the majority of finance to rural and regional Australia.

Until recently, technological constraints have dictated that such a market structure should exist, with any new suppliers wishing to enter the market needing a large and broadly based service network. Such preconditions dictate that a small number of suppliers would come to dominate the market. Nevertheless, more recently, new suppliers such as credit unions and building societies have started to enter the market. It is important that these suppliers are allowed to compete in this market on an equal footing with the existing major suppliers. In order to foster competition, all impediments confronting new suppliers must be addressed.

The necessary market requirements for competition, therefore, would include: a single regulatory regime covering all similar lenders to the rural market, and a public education campaign to inform the society that such a single regulatory regime does exist; equal access to the payment system for all financial institutions who meet prudential requirements; competitive neutrality in access to government payments and receipts; access to a full range of information on products and prices to the consumer at relatively low cost; no significant barriers to new entries into the market; and, most importantly, consumer mobility, particularly with regard to the ability of consumers to transfer between suppliers at low or zero cost.

If the notion of a community service obligation is rejected, then removal of these market impediments, together with government backed or sponsored community based initiatives, will represent the only viable option to cover the transition period between today's declining level of services and the new world of electronic banking. These transitional arrangements will involve a range of measures, many of which have already been covered by this inquiry.

These include: longer lead times for bank closures; greater consultation about bank closures; education of customers on the availability of new products; an expanded role for post offices; increased bank involvement in giroPost; local government involvement in the provision of services; the introduction of banking services into other rural businesses such as pharmacies, supermarkets and accountants; shared agency arrangements between banks; ongoing government funding for CreditCare, and other concepts such as community banking. I would now like to pass to Ms Simpson to cover the issue of online banking in rural Australia.

Ms Simpson—The growth in the uptake of online services, which consist principally of the Internet, has been quite phenomenal amongst Australia's farming community. In November 1995, only one per cent of Australian farmers were using the

Internet. Two and a half years later, this figure is closer to 20 per cent. This growth is despite the very real impediments faced by rural online users in terms of the cost of online access, the relatively poor quality of rural online connections and distance from support services for many rural computer users.

The reason for this growth occurring, despite these impediments, is the need for access to information, goods and services that are fundamental to their businesses and daily lives. Farmers and their families are having to turn to the virtual world of the Internet. This represents a tremendous opportunity for the banking sector in servicing their rural clients.

Farmwide recently commissioned a study of the online banking products that are available on the market and the results of the study can be seen in full on our Farmwide web site. In summary, for rural business purposes, it was found that the non-Internet products were much better—that is, those that you dial directly into the bank, the services that are not necessarily provided on the World Wide Web. We found that, in the rush to get something on the web, the functions available via a bank web site were not as extensive or useful as those offered in the non-Internet banking products.

Security issues were also a greater issue for Internet based banking products than for the non-Internet based products. The services on the web site suffered as a result. The banks are currently moving to address these problems. However, the public's perception regarding security is rising as a major barrier for business to business e-commerce.

Specifically, the key benefits of online banking for rural people are the ability to: conduct day-to-day banking from the office or home, thus saving travelling and other time; combine payments into one debit to a bank account through funds transfer, which saves money on bank and government charges; save money by cutting down on postage and handling charges; improve security as there is no risk of lost cheques or cash; check account balances and transaction details on a daily basis—this can result in greater control and better business management; and export information directly into third party accounting packages, thus facilitating their ability to make business decisions.

Of the nine banks contacted as part of the review, three lacked an understanding at the branch level of their online banking products. Queries relating to if the bank had online banking facilities, who to speak to about it and what functions the product offered, for example, could not be answered by this third of the banks contacted. Only two of the banks offered training on the use of their online banking products, and the rates varied between \$60 an hour and \$100 an hour. Our review did not test if this training required the user to go to a bank branch or if the training took place on the farm.

Farmwide also conducted a trial last year with Westpac of their deskbank product, which was pitched at small business, with a number of pilot participants in New South Wales. This involved the Westpac customers using this product to provide an evaluation of

the product and to participate in a chat session with us and the developers of the software at Westpac to relay the experiences. The results were favourable overall, with the cost of transactions and initial software being the major issues. The deskbank product was pitched at \$50 a month for 500 transactions. The farmers said that they would not make that volume of transactions and that they considered that \$50 to be too high. The result of that trial was that Westpac have revamped that deskbank product to what they consider to be more suitable on the basis of that and other feedback.

Online banking requires the use of a computer, a modem and software and, as such, requires a level of knowledge by a user. As a result, I believe the greater the emphasis placed on assisting people with easy to use software, training and support, the greater the uptake and benefits derived from the use of these services will be. It is not sufficient to assume that people will see the benefits from the use of these products without some form of introduction and support that meets their particular needs.

As one in five farmers are now online, and the numbers of rural people connected to the web grows, the information services offered online by the banks could become more focused. Regions could have their own sections of the bank web site, with people in those regions able to contact people they know online. Information and services will be able to be directly targeted at individual customers, alerting them to interest rate changes and other factors that could affect them directly. This level of servicing is becoming more cost-effective with the advent of online services.

Similarly, rural people and businesses will demand greater functionality from online banking, including security of transactions, e-commerce applications, integrated support features such as e-mail and news groups for support. It is incumbent upon the banks to ensure that their services are offered to rural people as they are rolled out elsewhere and that the particular needs of rural people with relatively poor communications links and scant support services are catered for.

The main aim of the banks in their approach to online banking should be to facilitate their customers' access to banking services and to make that process as easy as possible. In terms of online banking this involves making software freely available; tailoring it for and promoting it directly to rural people; ensuring local bank staff in all rural areas know how to use the bank's online banking products; encouraging local staff to run information sessions about online banking and its features; developing small business online banking products in consultation with rural people and businesses; proactively dispelling fears about online security and proactively seeking to improve the quality of the underlying telecommunications services to rural customers as this is vital infrastructure that is needed to support the delivery of online services.

Online banking should be viewed as another tool that assists businesses and individuals to carry out their daily activities. I do not believe it is a substitute for the myriad services that bank branches offer and should be viewed in country areas, as it is in

the cities, as an additional service to traditional banking with the aim of making people's lives easier.

As a general comment, over the last two years Farmwide has actively connected 1,000 farm families to online services in some very remote areas and that has highlighted a number of very significant constraints in terms of infrastructure for those people. I believe that that trial and the connection of those 1,000 people and indeed the 20 per cent of farmers that are now online would not have been feasible without the level of the universal service obligation that we have and the customer service guarantees that go with that. I will leave my comments there. Thank you.

CHAIR—I thank you both very much for that and I commend you for that presentation and the submission you have made. You have put a lot of work into it. Also I commend you on your proactive work with Farmwide. That is a tremendous initiative.

Mr Ritchie, I was wondering if I could start by clarifying one point. In your opening remarks you talked about whether or not various alternatives should be a community service obligation or a social obligation. What particular view does the National Farmers Federation have in terms of what the banks' obligations ought to be in regional Australia? As well as that, are you saying that government should actually either mandate or something similar?

Mr Ritchie—That is right. Our view is that there is a community service obligation. Community service obligations are not something that you can purely state exists or does not exist. Our view is that they exist along a spectrum. Some products such as health and education you can easily place at the top of that spectrum. There is no doubt that there is a government obligation for equal provision of those services to all Australians. Banking is somewhere on that spectrum. Where it is exactly on that spectrum we do not know, but we would put it very close to the community service obligation that exists both for Australia Post and for Telstra. Banking services appear to us to be on a par in terms of what is needed and the degree of fairness that would be available to regional Australia in that area.

We accept that there is a community service obligation in the provision of banking. That raises the issue of how that community service obligation is provided. We raised a couple of issues that could be looked at. For instance we have looked at the possibility of putting a levy on the gross asset base of financial institutions which currently is about \$600 billion. If you were to put a levy on gross asset base of one hundredth of one per cent you would get \$60 million which could be used for the sorts of projects such as CreditCare, Farmwide, education of rural and regional customers and provision of subsidised services in terms of cheaper rent or access to council products. The range of initiatives you could use that money for is pretty much limited only by imagination. That is one little thing we have looked at. You could have a direct bank licence fee to cover the cost. In fact I think it is important to note at the moment that the government is in the

process of handing back about \$185 million to the banks at a time when we are looking for funding for something like this in terms of what they are doing on their non-callable deposits which I noticed the Wallis committee estimated was equal to \$185 million in 1995-96.

To put it another way, it is about four basis points on any given interest rate product. That is four one-hundredths of one per cent on an interest rate product. We could ask why we would not use that money. In other words, the banks are already paying it out so we are not putting an extra impost on them. The estimate of the cost of regulation is something around \$10 million so we have a fee that is already charged on banks. In fact, some people have already referred to it as an informal bank licence fee. If we have a fee of around \$180 million, why not continue that fee—call it a licence fee if you want or call it a levy on gross assets—and use that money to help fund these community service obligations in rural and regional Australia?

CHAIR—Could you say if the NFF has a policy position on this? You talked about options but what do you actually favour for yourself?

Mr Ritchie—We do not have a direct policy position on this. In fact, we are due to develop a policy position at our economic committee meeting. But certainly the issue of the non-callable deposits is something that is happening at the moment. It just seems a little counterproductive for the government to acknowledge that there is a problem with the community service obligation in terms of banking and, definitionally, by holding an inquiry like this, you must be assuming that there is a problem in the provision of rural and regional banking. Obviously a charge to aid community services would help and yet we have a situation where we are about to give back \$180 million to the banking system. It just does not make a lot of sense at the moment.

CHAIR—Are there any further questions?

Mr MARTIN—Yes. The banks will argue that the only obligation that they have is to their shareholders. They will argue that the concerns about closures of branches and so on are not simply confined to rural and regional Australia but also in urban areas where a lot of branches have been shut down. How does the NFF get around this argument that the banks will keep on putting forward—that the only people they have to be beholden to are their shareholders? They make money and, as any business, they have to look at ways in which they can cut their costs. If that means closing down branches, whether it be in suburban Sydney or in rural remote Australia, that is part of the process.

Mr Ritchie—The two are not in conflict, I would argue. It is up to the government of the day to decide whether there is a community service obligation in banking. If they make the decision that there is then it is up to the government of the day to define how they fund that community service obligation—whether they do it by direct government funding or whether they do it by some sort of charge on the existing providers.

We have had a situation very recently with Australia Post where the decision was made to maintain that community service obligation through the Australia Post network. By putting a licence fee on a bank, or any provider of financial services or, indeed, by using these non-callable deposits, you are not impacting on the marginal cost curve for the banks so the banks can continue to run their business as a profitable institution. By getting marginal costs down you are adding a fixed cost so it does not alter their decision to maximise their profit. It is up to the government to decide exactly how they want to fund this community service obligation. A levy on asset base or the continuation of the non-callable deposit scheme are two ways of doing that and would not alter the profit maximising attitude of the banks.

Mr MARTIN—Comparing the banking system to, say, Telstra or Australia Post, in terms of some sort of community service obligation is not realistic, is it? At the end of the day, up until this year, Telstra, for example, was totally government owned. Australia Post, as you say, still is in government control and therefore the government has an ability to insist, through its own policy mechanisms, that some community service obligation is there to provide those services that are necessary.

But you are talking about in Australia an economic system of private banks—and they are now all private—with foreign banks brought in, supposedly to give some competition in business services, niche marketing and so on. The changes that this government has put in place are about to take effect which will give credit unions and building societies an opportunity, at last, to compete a little more effectively with the banks and possibly move into some of the areas that the banks decide to vacate.

There is a dichotomy. There is this difference that we are talking about something which is public, in a purer sense in that the government has control and ownership of it, against a private operation, even though it plays such an important role in the broad community.

Mr Ritchie—We accept that. Let me just say that we support those initiatives for credit unions and building societies 100 per cent. The situation we have here is that we need to go back to when we deregulated the banking system and we did have a bank in government ownership at that stage. We would argue that the issues were not fully understood then. I do not think anybody understood what—

Mr MARTIN—I disagree with you but, anyway, go on.

Mr Ritchie—When you look through the Campbell report, I think community service obligations were discussed in two paragraphs on one page. That was all I could find. The community service obligations were hardly ever discussed in any ongoing reports and I think they certainly got about a one-page treatment in the Wallis report. I would argue that we did not understand the implications of deregulation of the banking system in the early 1980s. I think it is perfectly responsible for any government of either

party to revisit this decision and say: 'We might have made a mistake. Perhaps we did not understand the consequences of deregulation of the financial system.' Therefore, if you are going to put a charge on them, you need to take into account, as you say, this private sector aspect of it. That is why we would be looking at some sort of system that did not change its marginal cost curves so they could continue to profit maximise. But I would argue that, if a government revisits a situation and argues that there is a community service obligation, it is perfectly appropriate for them to put a licence fee on banks.

Ms Simpson—Could I just add to that too? In terms of the universal service obligation with telecommunications carriers that is paid by the government to Telstra to the tune of nearly \$250 million a year and, under deregulation and privatisation of Telstra, we would hope, and it certainly looks like it would be the case, that Telstra and others would have to bid for that universal service obligation amount so that you could have people that have infrastructure and alternative technologies that could deliver similar services that would deliver that universal service obligation to tender for that \$250 million. I do not think that there is necessarily a conflict about who actually owns the entity if the government is putting up that amount of money for provision of service to rural areas.

Mr MARTIN—In Telstra or Australia Post or anything else that the government owns, there is a degree of cross-subsidisation. Are you suggesting that in terms of financial services there is cross-subsidisation that needs to be examined as part of this to give community service obligation in the bush?

Ms Simpson—Todd should answer on this. In the case of telecommunications, it is clear that there is some market failure in the delivery of services. It may become the case if we find in three years time Telstra is sold off and that people are not providing service to the bush. The universal service obligation is a safety net in that case to be able to stop that happening. What I am suggesting is that from a pure economics point of view, the government's role is, if there is an identification of people who are not being provided services, that that could be seen as a market failure and that there is a role for government in those areas.

Mr MARTIN—If governments of the day over time progressively have issued banking licences in this country, how do you go back and say to those people who have got the bricks and mortar and their operations spread throughout Australia and indeed overseas that we are going to fix some sort of a licence fee on them, now, after the event.

Ms Simpson—I think what Todd said is that that is the government's decision as to how you would raise those funds. What I am arguing is that, if those funds are available for provision of that universal service obligation that banks can then tender for, you have a situation where they are actually competing for provision of service—

Mr MARTIN—Banks or other financial institutions?

Ms Simpson—Absolutely, yes. Competing—

Mr ANTHONY—Just to recap: the levy goes on the banks. Is that correct? When you talked about \$60 million—

Mr Ritchie—We raised that as an option. If you were to put a levy of one hundredth of one per cent on the banks, you would raise 60 million.

Mr ANTHONY—On the banks or all financial institutions?

Mr Ritchie—There are a lot of issues we can discuss here. Certainly in the discussions that we have had at NFF we would actually want to try to create a system that rewarded banks for maintaining rural bank branches. You might want to change the asset base that you use.

Mr ANTHONY—What you are advocating is that some type of levy is put on banks. That is then consolidated by government and forms part of a basis of a universal service obligation?

Mr Ritchie—Exactly.

Mr ANTHONY—Is that correct?

Mr Ritchie—Yes.

Mr ANTHONY—And then you are advocating that should go out to tender. Is that correct?

Ms Simpson—I just put that up as a model of what we do with telecommunications services in Australia.

Mr ANTHONY—Okay. Let us follow that argument through. You open it to competition. Therefore, if I am a non-bank financial institution, I can put my hand up to grab part of that USO. So the banks then are subsidising a non-financial institution to have an advantage in supplying a product to a regional area. The banks are not going to be part of that.

Mr Ritchie—Implicitly, we look at the issue of bank branch closures and we ask, fundamentally, why it is happening. If we accept the banks' argument—and we accept it in part—then it is happening because it is more costly to provide rural bank branch structures. If you accept that as an argument, then why not funnel the subsidy into making the cost of providing rural bank branch structures equal to the cost of providing urban bank branch structures?

CHAIR—Can we just clarify why you see there is a difference between the suburban and the rural? The banks are closing branches in suburban areas just as fast as in rural areas.

Mr Ritchie—I think the evidence suggests they are closing branches faster in rural and regional Australia than they are in urban areas. We have got the cost aspect from the point of view of the banks and also we have got the cost aspect in terms of the customers. The implicit cost to a rural customer when a bank branch closes is higher than the implicit cost to a city bank branch customer.

Mr ANTHONY—Just to clarify my thinking: you are arguing that there should be some type of levy on banks and that should then be used as a subsidy to rural areas. But you are also looking at CreditCare, Australia Post and all these other facilities, which in many ways will ultimately be able to deliver better services, potentially, than banks themselves to these areas where they get a certain contraction. Is that correct?

Mr Ritchie—I guess what we are looking at here—

Mr ANTHONY—I do not think you can put a levy on the banks and then say, ‘Sorry, you are going to subsidise Australia Post, CreditCare and other non-financial institutions.’ Whilst I might have some sympathy with that, it sort of goes against what the NFF have been parroting for the last 10 years.

Mr Ritchie—Perhaps I should clarify that: if I said banks, then that is not what we meant. We meant all financial service providers based on an asset base. That keeps you competitively neutral amongst all financial providers. The credit unions and the building societies would have the levy placed on them.

CHAIR—Does that then include stock agents like Elders and Dalgetys?

Mr ANTHONY—Or pharmacies or Australia Post?

Mr Ritchie—How wide you put the net would be a government decision. I would imagine the decision would be based on the institutions covered by APRA. It is that coverage by APRA that provides these institutions with a competitive advantage. In terms of the saying ‘as safe as banks’, maybe it will be ‘as safe as credit unions’ when we get APRA up and running. That is the implicit guarantee that is provided by being part of the banking system. It is the implicit advantage that the banks have had all these years—in that they are regarded ‘as safe as banks’, in that it is regarded that the government will guarantee customer safety and deposit safety.

Mr MARTIN—Not after the Wallis committee. That has been made explicitly clear now.

CHAIR—What is the implicit guarantee? What do you actually read that as?

Mr Ritchie—It is an implicit guarantee that has existed that the government would step in—

CHAIR—But I think Mr Martin is suggesting that it may not be there.

Mr MARTIN—There was a view that that was the case and it was rarely, if ever, tested in Australia. Now after Wallis, it has been absolutely made explicit that that just does not exist, that the government is not going to step in if there is a market failure in a financial system.

Mr Ritchie—Okay. But we are talking about a transition arrangement here. In this argument, NFF agrees that the changes that are happening may solve the problem. Technology may solve the problem. The changes recommended by Wallis may solve the problem. But, while that is all happening, we have a transition period where rural bank branch customers are being affected by bank branch closures. We need a mechanism to get us through this transition period. We are not suggesting this needs to be a permanent arrangement. We are just saying that there is a difficult transition period we have. It may be five years, it may be 10; I do not know how long it will be. But we have got this difficult transition period, so let us try to find some solution to the problem in the transition.

Mr MARTIN—I want to go back to this cross-subsidisation argument again and pick up the point that was made about the rate of take-up of access to technology, particularly with one in five now linked to the Internet. Taking the point about the non-callable deposits that are there and so on, would there be some benefit in looking at some way in which that might be applied as a subsidy to rural and remote communities to enhance their connection to the Internet? I take your point that the banks themselves have not perhaps developed and refined as much as they should the way in which people can access all the financial services through the Internet yet, but I am sure that is coming. Would that be one solution that would be viable as well?

Mr Ritchie—Yes. There are a whole range of options that you could use any money raised. If we are going to accept that electronic banking is part of the answer, then we need an education program. Ms Simpson has covered some of the aspects of that, but people are not just going to take up these services without some sort of prompt, without some sort of education program.

Ms Simpson—My figures reflect the farming community as well, which have that added incentive for online banking of not having to travel that distance. Their figures are much lower in rural towns for the take-up of online services in households. In households in Australia generally, it is lower than that. I think farmers are definitely getting on to the technology faster.

Mr MARTIN—That is more a reflection of the tyranny of distance, transport problems and so on.

Ms Simpson—I think so. The benefits that they can derive from it are greater, despite the fact that distance does create greater problems for them with their infrastructure.

Mr MARTIN—We were told, for example, that one of the last things to shut down in a declining rural remote part of Australia is, in fact, the bank. It is virtually the last thing that will go. You will see some of the other quasi-government and other government service providers going. Some of their major economic infrastructure shuts down and then the bank finally decides it is going to go as well. Is that a reflection that the NFF has seen?

Mr Ritchie—No. The research we have done on it, and we covered it in our submission, is that sometimes that is the case and then at other times the bank is the first institution to leave the community. I think the evidence suggests on a case by case basis that sometimes the banks are the first to leave and sometimes they are the last to leave. I would refuse to accept the banks' submission that they are always the last to leave.

Mr ALBANESE—In part, Ms Simpson's submission is about growth of the Internet. What we have heard from the banks, effectively, is that they have accepted that they do not just close non-profitable branches. They essentially have made economic decisions about closing less profitable branches. Therefore, because they have a view that they can basically close a branch in a town and keep some of the business—either through one-on-one business with their biggest customers or through the Internet, et cetera—they think they can close. They can hang on to the business that they really want and, if you like, forget about the pensioners, the retired people and the small customers. That is why it is occurring, surely.

Mr Ritchie—That is exactly the case. In fact, they tend to hang on to even that business as well, because people have to jump in their cars and drive the distance to get to the next branch of the bank that they were with. That is why I stress the importance of consumer mobility. We need to find a system whereby, if the second last bank in a town closes, it should be costless for all the customers of that bank, if they so choose, to transfer to the last bank. In other words, we create an incentive system for one bank to stay there. At the moment, that incentive does not exist. When one bank closes, it tends to keep a large proportion of its customers.

Mr ALBANESE—That is what confused me. You put in your submission that there be a legislative option of somehow the government almost directing that a representative bank stay in a town. I do not see how you can do that.

Mr Ritchie—You could and it is possible to do it. Whether it is desirable or not—

Mr ALBANESE—It is creeping socialism, isn't it?

Mr Ritchie—These were just options put on the table. I am not saying that this is what should be adopted. I am saying that there are options there and they need to be rejected on formal grounds. The option is there to specify geographic monopolies or regional monopolies, if you decide the answer is there. We are not saying that is what should happen; we are just proposing it as an option.

Mr ALBANESE—In terms of justifying it, in my electorate that I represent in the inner west of Sydney, the banks send you regular letters—which I have kept on file—saying that they are shutting down, and I think something like 12 to 14 branches in the inner suburbs of Sydney have shut down in the two years since March 1996. How could I possibly justify saying, 'I'm supporting this levy to keep branches open in rural areas'?

Mr Ritchie—Hopefully, you would justify it by the existence of the cost to the rural electorate of the bank branch closing. How far would somebody in your electorate have to travel if one of their banks closed? How far do people in rural Australia have to travel if their last branch closes? So the justification could be reasonably simple.

CHAIR—In your earlier submission, you said:

. . . there is strong evidence to suggest that major competitive failures continue to exist in the Australian banking sector.

Do you want to expand on that?

Mr Ritchie—We were addressing the issue of pricing of banking products there, which I understand is not totally what this—

CHAIR—The committee has an interest in this.

Mr Ritchie—Of course. Basically, if you look at what has happened in the housing market and you ask the question, 'Where were the competitive pressures for lower mortgage rates?', they did not exist within the banking structure as it existed. Yet, as soon as some competitors came into that market, for one reason or another, banks suddenly became very competitive in the housing market. So I think you could take that as prima facie evidence.

Why does the entry of one new producer or service provider into the market suddenly enable the banks to lower their interest rates by 1½ per cent? Surely the ability to do that was there before these new providers came in. It was only the increased competitive pressure from new mortgage providers that provided the incentive for the banks to make that decision. Where is that pressure in the small business markets or the rural and regional markets? Largely, it does not exist.

CHAIR—That is why we want to get your views because the Reserve Bank, in some of the material that they have provided to the committee, have shown that the

margins on small business lending, for example, have come down and are not that different from larger business lendings.

Mr Ritchie—I have looked at that data, and I would not exactly draw that conclusion. I would say that that data clearly shows there still is a margin on small business lending that is excessive relative to margins that exist on other products.

Mr ANTHONY—What is it now, Mr Ritchie? What is your view?

Mr Ritchie—I would say that that data could equally be interpreted to say that there is an excessive margin in small business lending.

Dr SOUTHCOTT—We have had different evidence from the Reserve Bank report but, in the area of business lending, what sorts of problems are you encountering from your membership? If they are in a small community, fewer than 1,000 people, and the banks have closed, is it fair to say that the small and medium businesses and farms are having problems accessing things like mobile lending from the banks?

Mr Ritchie—Rosie may know more about mobile lending than I do. But, certainly, there is a reluctance amongst our members to take up mobile lending. Their attitude seems to be that, if they support the mobile lending, any remaining financial institutions are going to leave, that there is going to be less incentive for banks to maintain branches.

There is also an attitude, or a feeling, that the mobile lenders call only on the viable bank branch customers. In other words, they are calling on only the top 20 per cent of customers, and the 80 per cent who perhaps need the mobile lender to spend more time with them are not getting the service that they desire. So you have the situation where it is the mobile lender who comes to the customer whereas, if a customer is in trouble and does have a bank branch available, he can make the decision to go in at any time of day and discuss his problems with the bank, if it exists.

Dr SOUTHCOTT—The usage of ATMs over the last four years has increased exponentially. We have heard that the number of farms actually accessing the Internet is now up to 20 per cent. People can use EFTPOS—that is widely available, even in the very small communities. All of those things can allow people access to cash and so on. But, in terms of business lending, what do you think are the sorts of issues that we should be addressing?

Mr Ritchie—The bottom line is that you cannot get a loan from an EFTPOS machine.

Dr SOUTHCOTT—Yes, that is right. So you can do all these other things—

CHAIR—On lending, in America, for example, Farmer Mac has started up and

appears to be quite successful with a very rapid growth in farm lending. Have you investigated that and seen whether there is an opportunity for someone in Australia to provide that type of service, which is an online service?

Mr Ritchie—The short answer is, no, we have not investigated that.

Ms Simpson—No, I am not familiar with that service.

CHAIR—The company was lending to farmers as of six months ago. I think their loans exceeded \$700 million in a two-year start-up period, and at very competitive rates. I was wondering, when you talk about lack of competition in housing now bringing the rates down, whether or not that opportunity might be there in other sectors.

Mr Ritchie—We will certainly take that on board.

Dr SOUTHCOTT—I think there has been a feeling in business lending that it is in the area that is quite specialised and should remain so. It may not be appropriate, even if we still do have a bank in a small town, that they should be the ones who are deciding who will get the small business loans, making that sort of decision. What would be your view of that?

Mr Ritchie—That is the issue with agriculture. It is a specialised lending area and you need the expertise on the ground. A large majority of our complaints are concerned with the fact that there is a perception that there is no expertise available, there is nobody that the farmer can go in and talk to about their product cycle, commodity price cycles and the like. There is this definite feeling that expertise from the banking sector has decreased and has decreased to the extent that you now cannot get reasonable advice from your local bank branch manager.

Dr SOUTHCOTT—Previously, people would have got that sort of small business advice?

Mr Ritchie—That is what we are hearing. Slowly, the provision of that advice is being eroded over time.

Dr SOUTHCOTT—What would be the NFF's view? Wouldn't you feel that perhaps that is an area that is more specialised? We saw some of the problems in the 1980s where people were recommending products like foreign currency loans that were just beyond their ken to actually comprehend what the downsides were. Don't you feel that, in the area of small business lending, that is an area that needs to be more specialised, say, in the centres rather than in the small towns?

Mr Ritchie—It is a specialist area. If you take it to the centres, how are you going to guarantee that you have people with specialised knowledge, firstly, of the products

grown in that region and, secondly, of the marketing cycle for that particular region? You really do need people on the ground with a specialised agricultural knowledge.

It is worth noting that, as their specialised agricultural knowledge base falls, the perception within banks of agricultural lending will actually increase. So you actually get a two-way hit to farmers that not only do they not have anybody there to discuss the issues with but also the fact that the banks may not have the expertise or the regional knowledge would cause them to assess the product as more risky over time.

Dr SOUTHCOTT—Do you have any suggestions as to how to improve that situation with small business finance?

Mr Ritchie—The suggestion would be for the banks to maintain a presence in the regional area, but we know that we are not going to get that.

CHAIR—Mr Ritchie, we have had, for example, Sandy Cameron from the South Australian Farmers Federation come before us. As I recall, his previous job was a National Bank regional rural lending adviser. I understand that most of the banks do have, in their rural lending section, some fairly well-trained people. Are you saying that this is inadequate, that there are too few or what?

Mr Ritchie—I am trying to pass on perceptions that we are getting from our members. I am not passing on my views here. The perception is that the number and the availability of specialised rural lenders has fallen over time.

CHAIR—Time is going to get away from us. Can we move on to some of your presentation, Ms Simpson—the problems of infrastructure in the Farmwide program that you have set up. You have said that, for the 1,000 people, infrastructure is one of the major restraints. I was wondering if you could expand on that a bit. Also, for example, yesterday Ericsson were here making a presentation. One of the things they were offering was a new way of connecting to the Internet via satellites, which is many times faster than a lot of the existing, quite slow services that are available in the country. I was wondering if you could expand on that a bit.

Ms Simpson—When we started this trial, we provided the 1,000 families with 28.8 kilobit modems. As a result of our investigations over the last 18 months of their using those modems, we found that 25 per cent of people could connect only at 9.6 kilobits per second or less and that 67 per cent could connect only at speeds of below that 28.8 kilobit connection.

The most important things that farmers are saying they want to get from the Internet are: firstly, weather; secondly, commodity pricing and marketing information; and thirdly, technical production type information. At speeds of 9.6 kilobits per second and less they are not going to be able to get the sort of weather information that they need

because the information is graphical.

The issue with online banking though is that most of the direct online banking products have run at the 2.4 kilobit board for years because they are text based; they do not require that sort of bandwidth. But if we are looking at trying to see online banking as a direct substitute for banking services, it has to be able to provide a far greater breadth of services than just a text based service. That includes the ability to have a face-to-face consultation with some of the expertise that Todd has mentioned is required in rural sectors.

We have trialled that videoconferencing facility over 28.8 connections and it gives you a refresh rate of about five frames a second. That five frames a second is about four times as slow as what you would expect on a normal business videoconferencing facility. Most products are designed for a 64-kilobit connection. You can imagine that is quite a lot greater than what the rural people are currently accessing.

The Internet product that you saw yesterday, a product of the American company, Hughes, is called Direct PC. We are trialling that with 200 participants in the next stage of what we are doing at Farmwide, and we have already received 400 applications from people to take part in those trials. What we would like to do with some of the Internet services that we are delivering via satellite, and indeed with some other aspects of the trials that we will be doing, is trial enhanced services, and that will involve online banking.

The sort of integrated support functions that I mentioned in my talk such as being able to dial up into your bank, being able to download your latest statement, carry out a number of transactions and then to be able to dial up into a regional service manager or someone who is a specialist in your field to then have a face-to-face conversation with them, requires that sort of 64-kilobit link.

We will not be able to do that with that satellite product because it is only a one-way download. It is 64 kilobits down and then you rely on your normal telephone for what they call the back channel. So, in terms of a two-way system, it is still not quite there. The technology is still a little away from being able to provide the sorts of services which you could argue would make online banking close to a direct substitute for face-to-face banking.

Mr ANTHONY—Ultimately, that is what will happen for those people who have got the technology in farming communities. If you put in your proposed kiosk arrangement—and obviously it would have to be in some type of franchise arrangement, but let us hope it was not a bank—then a person would walk in there, do their EFTPOS and other banking and then have the facility to hook up and go face to face with a manager in some urban area and do banking services. Is that what you think will happen?

Ms Simpson—That may work for people who live in towns, but the major benefit from online services for the farming community is that they can do business from their homes; they do not have to travel. We have had telecentres in Australia now for probably six years. That has not had a significant—

Mr ANTHONY—With videoconferencing facilities?

Ms Simpson—No, just with access to the Internet.

Mr ANTHONY—But people want that face-to-face aspect, unless they have established a relationship with a business manager. Should that be something that we should be pursuing? Maybe we should be establishing those sorts of facilities if they are not going to get financial institutions into those smaller towns.

Ms Simpson—My point is that the real benefit for the farming community is not having to travel. If you put a kiosk in a town which they are still 80 kilometres from, you largely negate that benefit. So, in terms of the farming community, you do need to be able to deliver that sort of bandwidth into the home. That is the biggest problem that we have in Australia—that the customer access network from the exchange to the home is the weakest link in the chain. That needs quite a lot of money to be able to provide those sort of services, or to look at the sorts of things that David is talking about with satellite.

CHAIR—Just coming back to this telecentre thing, if a telecentre was expanded so that it could provide that videoconferencing in lieu of a bank branch, because in a small town you are not going to have a manager with authority to do that type of lending, would that be a useful substitute?

Ms Simpson—It would be useful for town people since the distance to travel to that telecentre would be okay. However, the issue is also about what people discuss with a bank manager. You would have to deal with issues of security and sensitivity of information delivered via this service in terms of who else is in the room, or where this is housed and so forth. In a lot of towns you are still going to have difficulties with the sort of bandwidth that you require. I think it is the next stage that we could see banking going to. The telecentres would welcome videoconferencing facilities and that would assist rural people generally, but also we need to think about delivering that directly into businesses.

CHAIR—Would you see that as a priority worth pushing?

Ms Simpson—It would be considered as one of the other aspects of how people relate to their bank. I cannot see a discussion with a bank manager as the only aspect to consider in having a branch in a town.

Mr ANTHONY—The NFF recently called for \$1.25 billion from the sale of Telstra, according to the *Financial Review*, to go back to the bush to develop better

infrastructure facilities. Is that where you see the bulk of that money going? Do you have a list that you can supply to us of how you want to carve that up? Can you supply that to the committee? I do not know whether I have seen that.

Ms Simpson—We can definitely provide you with the NFF's policy on the sale of Telstra.

Mr ANTHONY—Not so much the policy, but the proposal for where that money is to be spent. I am interested in a list of what type of technology and what type of infrastructure you hope to spend the money on.

Ms Simpson—We have just undertaken a study of exactly what would be required to upgrade the infrastructure in rural Australia to a digital capacity. We would expect that to be completed in a month's time.

CHAIR—Will that be available?

Ms Simpson—Yes.

CHAIR—Can we be on the list?

Ms Simpson—Yes.

CHAIR—Thank you. Mr Ritchie, you were talking about the cost of transferring from one financial institution to another. It is my understanding that in some states stamp duty would be the biggest cost if you wanted to transfer a loan, but that is now being waived, subject to some constraints. Is that the main concern, or are there other parts to that?

Mr Ritchie—There is also the element of a shoe leather cost and an inconvenience cost, and that the onus of the process is left largely with the consumer. We would argue that banks should look at streamlining this transfer along the lines of a product.

CHAIR—You are asking a lot there, aren't you?

Mr Ritchie—The important thing to keep in mind is that it is a zero sum game. It is not as if the consumers are going to disappear, although the credit unions and building societies may be capturing some of the market. By and large, the number of customers is identical. So you would assume that the more competitive banks will still be competing for bank customers. Borrowers have got to go from one bank to another, so what you lose on the swings you pick up on the roundabouts. There should be some avenue for competition there to facilitate this process and then the better banks can compete for the business instead of locking in customers as they do at the moment.

Mr ANTHONY—You are pretty comfortable with your earlier arguments about regulation to ensure that there is a levy put on banks for USOs to go back to the bush?

Mr Ritchie—A levy or a pseudo licence fee already exists in terms of the non-callable deposit system. However, it seems that, at a time when we are trying to finance the provision of rural and regional banking services because we have perceived that there is a problem there, we are about to hand back this money.

Mr ANTHONY—Thank you.

CHAIR—Mr Ritchie, Ms Simpson, thank you very much for coming along today, and thank you for the additional information that you have given us. It has been very helpful.

[11.22 a.m.]

AVELING, Mr Anthony Robin, Chief Executive, Australian Bankers Association, Level 42, 55 Collins Street, Melbourne, Victoria

CARROLL, Mr Stephen, Associate Director, Australian Bankers Association, 55 Collins Street, Melbourne, Victoria

STEWART, Mr Christopher Robert, Director, Public Affairs, Australian Bankers Association, 142 Phillip Street, Sydney, New South Wales

CHAIR—The Australian Bankers Association appeared before this committee in February at the first of the public hearings for this inquiry. Accordingly, we look forward to hearing from you again today and learning any steps that are being taken to address the problems being faced by regional and remote communities as a result of changes in the delivery of financial services.

I welcome Mr Tony Aveling, Mr Chris Stewart and Mr Stephen Carroll from the Australian Bankers Association to today's public hearing. May I remind you that the evidence you give at the public hearing today is considered to be part of the proceedings of the parliament and the giving of false or misleading evidence may be considered a contempt of the parliament. The committee has previously received a submission from you numbered No. 80. Do you wish to make any alterations to that submission or do you have any further submission?

Mr Aveling—I would like to make a verbal presentation.

CHAIR—Yes. Would you like to make an opening statement?

Mr Aveling—Yes, thank you. In the course of this inquiry, the committee has heard from a wide range of witnesses about what is happening in rural Australia, how some local economies are contracting and how populations are declining.

The banks believe that the issues arising from rural restructuring are substantial and we do believe that they warrant a national inquiry. It is only by fully understanding the causes of rural decline that sensible solutions can be developed.

Some witnesses have blamed bank closures for the problems. We have argued that banks are responding to the problem and not causing it. We showed you that banks are typically one of the last industries to withdraw from a town, long after governments have closed schools, hospitals and offices and after the demise of other businesses.

Today the banking industry would like to supplement its earlier submission to this committee to take account of some of the evidence given to date and to offer some

solutions.

Of all the changes brought about by technology, none has attracted the attention and emotion which has come with changes in rural banking. The replacement of parts of the traditional branch network with efficient, flexible and convenient electronic banking technology has been interpreted by some in the community as banks deserting the bush.

Nothing could be further from the truth. What we are seeing is not a desertion, but a change in the face of rural banking. Banks have actually increased the number of outlets in rural Australia with an expansion in agencies, such as the Australia Post and giroPost network. They have also made a heavy investment in new self-service banking and, as a result, not only are there now more than 6,000 bank branches and agencies in rural Australia but, unlike 20 years ago when banking was available between 10 and three, there is now 24-hour, seven-day a week banking available in the bush through more than 2,500 ATMs and 75,000 EFTPOS terminals, as well as telephone and Internet banking.

The usage level of self-service banking in rural areas is almost the same as in metropolitan Australia and it is growing rapidly, particularly in telephone and Internet banking. In part, this is because new technologies have allowed banking to be done from the convenience of the home, rather than travelling many kilometres to the nearest town.

While several banks have an extensive personal banking network through Australia Post, giroPost and other third party agencies, others have used franchising, community banking and mobile services as a means of providing more efficient, effective and convenient banking in place of the traditional branches. But, for all of the advantages of new banking technology and the successful efforts of the banking industry to expand agency and self-service networks, it is clear that something more needs to be done to assist rural Australia through the transition. We said this in our original submission and it is a strong message coming through in submissions before this committee.

We recognise that there is a great deal of economic and social uncertainty in rural Australia and we know that our customers are looking for answers. The banking industry has been listening and is now delighted to be able to present to this committee a package of measures aimed specifically at rural services. We believe that these measures will go some way towards addressing the problems in the bush.

While we continue to work on further options, we are pleased to announce today some positive initiatives in relation to rural Australia. The banking industry undertakes that, first, it will endeavour to leave reasonable access to banking services when closing a branch in areas where there are no other providers of similar services, such as credit unions, building societies or Australia Post. These banking services would include transaction and payment services, deposit services, loan services and telephone banking. The services will be provided by alternatives which could include bank agencies, third party agency arrangements, franchised branches, community banks or bank kiosks.

Second, it will adopt a minimum uniform standard for rural and remote bank closures. Except in unusual circumstances, banks will give six weeks written notice to customers before closing any rural or remote branch. Third, where a branch is closed, the bank will provide face-to-face education and training for customers and the community in alternative forms of banking.

Fourth, it will consult with local communities on the trends in the delivery of banking services so that they may consider general developments that might affect in the future the way they will be able to access banking services in their area. Fifth, it will contribute actively to efforts by government and the community to understand and address the factors involved in the decline of some small rural and remote communities and economies.

Sixth, it will continue to enhance rural bank services through the greater use of mobile, specialist managers, including agribusiness managers and rural advisers, and, seventh, it will conduct a trial to assess the feasibility of smart cards being introduced and the extent to which they could lessen the reliance on cash and prove popular with consumers in small country towns.

The effectiveness of these initiatives depends on the support and cooperation of all levels of government and community leaders. Australian banks believe that the solution to the problems of rural and remote Australia is most likely to be found in a constructive and a cooperative approach. The adoption by banks of this seven-point package is a significant step in demonstrating our commitment to customers in rural and remote communities. But this is not the end of the story and banks will continue to seek better ways of helping their customers.

As a further stage in this direction, banks are investigating the feasibility of electronic technologies that will allow a range of approved agents to accept multibank deposits and withdrawals at sites where only individual bank cash withdrawal facilities previously existed.

Mr Chairman, the banking industry thanks you and members of your committee for the constructive way in which you have conducted this inquiry, and we look forward to the tabling of your report.

CHAIR—Thank you. We are much encouraged by what you have had to say today. It reinforces the value of the work that the committee has been doing and, certainly, to see a constructive response like that is very heartening. In your opening remarks you talked about something more in transition.

Mr Aveling—We have copies of my remarks here and it may be useful for members of the committee to see the dot points written down in front of them. Would you like us to circulate those?

CHAIR—Yes, thank you. You used the words ‘in transition’ in your opening remarks. In transition to what? You are looking five years hence, so what is that?

Mr Aveling—I wish I knew the answer to that. Ten years ago when I worked in these branches I would not have known where we are today. New technology is throwing up all of these alternatives and there is no doubt that having 24-hour access to services is tremendously helpful. We foresaw all of that. Perhaps what we did not foresee well enough is this face-to-face part of the equation. We are all people and we do like to interact with human beings. It is that caring personal relationship side that we need to look at.

CHAIR—Yes. I will adjourn the committee for 10 minutes.

Proceedings suspended from 11.33 a.m. to 11.44 a.m.

CHAIR—We now have a quorum so we will continue. Mr Aveling, before the division you were talking about the transition, and we were trying to work out what the transition is to. Would you like to continue?

Mr Aveling—Where I was leading to is that technology has brought us considerable advances in being able to deliver low cost and convenience to consumers wherever they may be. But what is sometimes missing is the element of face to face, which is still valued by people. I think I was saying that I cannot foresee what the end will be. You do not want this answer, do you?

CHAIR—I do. I am sorry; we will have to adjourn again. Another division has been called.

Mr Aveling—Okay; we will see you later.

Proceedings suspended from 11.44 a.m. to 12.06 p.m.

CHAIR—We will try for a third time. My apologies for the interruptions, but there are some things that we cannot control. Mr Aveling, before we proceed any further, for the record, I would like to move that your opening statement, which is already in the *Hansard*, also be authorised for publication as a separate document so that anyone who wants to get hold of it can do so without having to look in *Hansard*. We will authorise that for publication as submission No. 122.

Mr Aveling, you were trying to give us an answer on transition. Maybe you would like to have another quick go at it.

Mr Aveling—What worries me, Chairman, is that I will probably give three different answers now. You have asked the question three times. I will try and be a bit

quicker.

The answer is that these technological changes are obviously going to continue. Where they end up, I do not know. In fact, they never end up. What I was trying to say is that I believe that where we are trying to take it is that we can help people with the face-to-face requirements, and sometimes you can use technology to help you with that face-to-face requirement. It is a more friendly type of service—and I do not mean that in a soft way—that we are able to offer using better technologies.

CHAIR—In technology, you are talking about videoconferencing?

Mr Aveling—No. For example, at the end of my address I mentioned something we have started work on, and that is that we would like to be able to provide multibank access to a terminal rather than individual bank access. We are not there at the moment, and that is why it is an idea that we would like to work on. That provides greater convenience for people. It is just like EFTPOS. You can go into a place and you can get the service from a number of banks. People tend to forget that, even with ATMs in the old days, if the ANZ was the only bank in town, you could only get an ANZ banking service. Now, with ATMs, you can use any kind. With EFTPOS you can get the service from any bank.

CHAIR—Dr Southcott is very keen to ask you a question.

Dr SOUTHCOTT—Is the Commonwealth-Westpac system of ATM now integrated with NAB and ANZ?

Mr Aveling—Yes, I am pretty sure that is the case.

Mr Carroll—If you are a Westpac customer, you can go to a NAB ATM and use it to make a transaction.

Dr SOUTHCOTT—When did that occur?

Mr Aveling—Probably in the last 12 months. You are quite correct: for a while Westpac and CBA was one system and the other banks were another system.

Mr WILLIS—For an additional fee?

Mr Aveling—Yes, there is a foreign ATM fee which varies between \$1.00 and \$1.50.

Dr SOUTHCOTT—On the sixth point, to continue to enhance the rural bank services through greater use of mobile specialist managers, agribusiness managers and rural advisers, one piece of evidence that we have quite often in front of this committee is

that many of the small to medium businesses and small to medium farms feel that facilities such as mobile lending and so on are really aimed at the top end of the market and they really do not have much access to mobile lenders. How would the Australian Bankers Association respond to that?

Mr Aveling—I think that is a valid point to raise. There is no doubt that, when mobile managers of any sort were first introduced, they were the agribusiness managers who tended to deal at the top end of the market. They were the relationship managers with a limited number of connections. But where it has been going is that it has been expanding the number of managers that will deal with the small to medium sized end of the market.

Listening in at the earlier part and listening to your comments, Mr Chairman, there is no doubt that the branch manager of the past does not exist to the same extent now and the authority is no longer there. What has taken its place are the agribusiness managers, the rural advisers, the mobile managers and the regional facilities that now exist in banks. More than 10 to 15 years ago you did not have regional officers that really understood what was happening in the local area. It has just been a shift in the way these things are being done.

Dr SOUTHCOTT—So all of your constituent members are keen to see mobile lending expanded more and focusing more on those medium to small businesses?

Mr Aveling—Yes, we would like to.

Mr Carroll—The small to medium sized businesses that you are talking about would have to be very small for them not to be receiving services from those sorts of managers. I know through personal experience that a fairly low turnover farming operation, which has recently changed banks, is being serviced by mobile managers from two different banks—two of the major banks. We are saying a turnover of under \$150,000.

Dr SOUTHCOTT—That is interesting but, as I said, it has come up in evidence quite often and I think it is worth pursuing with you.

Mr Aveling—If I can give you a specific example—and this is a metropolitan example rather than a country example—these small to medium sized businesses used to be well catered for by the local branch manager. As the nature of the branch manager's role has changed—in many cases they are the more selling type people who look after housing loans—then the ability to look after those very small businesses, the microbusinesses, if you like, started to drop away. That has been recognised by the banks.

Each bank has a different way of handling that, but I certainly am aware of examples where they have specific centres now that just look after that type of business

and manage those types of accounts, so you always have a relationship, a telephone number to ring and the name of somebody. So these specialist services that were provided in the past can not only be provided now but I believe be enhanced by people who really know what they are talking about. It has been recognised as a problem in metropolitan areas as well as in the bush.

Mr ANTHONY—I am certainly interested in the seven-point plan you have put to us—it is probably less controversial than the 10-point plan.

Mr Aveling—It came along quicker too.

Mr ANTHONY—I am sure, given the fullness of time, it will become a talking point. Your last point talks about trialling smart cards, trialling being less reliant on cash in these areas. Notwithstanding that there are some benefits to that, I would have thought it would be pretty tricky. It is hard enough getting smart card take-up in fairly educated urban environments let alone in small country towns. They would be flat chat using smart cards plus having the facilities to utilise them. I do not know whether that is realistic, but I would be interested to hear your comments.

Mr Aveling, you also talk about in point No. 4 that you will consult with local communities on trends in the delivery of banking services so that they may consider general developments. Could you perhaps enhance on that?

Mr Aveling—Firstly, on the smart cards, yes, you are absolutely right that the card areas of banks would like to concentrate on Darling Harbour and places like that where you have a lot of people coming through, a young type of population and lots of transactions. This is an important point, but what has been agreed—and this is at the chief executive level of the banks—is that, because of the need to do something in rural areas, we are going to make sure that we run trials in small country towns.

Whilst in one sense the demographics may not be as appropriate in country towns as they might be in Darling Harbour, in another sense you have more control over the total elements. We have not gone through the detail yet, but you may be able to provide the right sort of telephone so that people can download on the telephone. You will make sure that all the merchants have the right sorts of terminals. You can make sure that all the people have got the cards. You could really do your education because, by definition, you have a relatively small population there.

So, whilst the card areas might not necessarily agree with it from a banking perspective, let us really use this as a laboratory and go to the small country towns that want to do it—there is no point in imposing this. But some communities might say, ‘We’d love to give it a trial and we’re going to cooperate with this.’ That is the aim of that.

Mr ANTHONY—Do you think it would be hard for some of those communities?

It will be basically one in, all in—or one out, all out—in those small towns? Are they going to have the capital? It is pretty expensive to put in all those terminal facilities in each of those little shops in towns.

Mr Aveling—Again, I do not want to go too far ahead of myself, but there is no doubt that some of the costs of running a trial like that are going to be borne by the banks. We want to see something that is up and running. To help it get up and running is going to require a level of investment by the banks.

Mr ANTHONY—So what you are saying is that you will do some pilots in rural communities where the banks will come in and help provide the financial capital, not just in establishing a smart card but also in assisting those businesses to have facilities to use it?

Mr Aveling—As part of a trial, yes.

Mr ANTHONY—That is what you are proposing?

Mr Aveling—Yes.

Mr ANTHONY—That we are actually going to see trials?

Mr Aveling—Yes. The extent of that I simply do not know because we have not done that work yet, but that is the idea.

CHAIR—Mr Aveling, in your response to Mr Anthony you said your chief executive officers of the banks—I presume that is all members?

Mr Aveling—All of the banks that have got rural representation, yes.

CHAIR—You said they are committed to this. How big and strong is that commitment? Is it because of this inquiry, is it because there is a recognition that the banks are bleeding a bit over the bad publicity, or is it an ongoing thing that you see this as an integral part of our banking because it will contribute to our future wellbeing?

Mr Aveling—Yes, yes and yes I think is the answer to that. In our original submission, we did point out that there were going to be additional solutions that were required. We pointed out all the things that we are doing, but we said that there are people being left behind, particularly the elderly and small businesses, and that additional solutions were required. For example, we pointed out that maybe we were going to have to do something with smart cards. We had not got it to the stage of, ‘Let’s actually run some trials.’ So this is a development of our thinking.

Because we are out in these areas and we have been out in these areas for 150-odd

years, we have been getting the feedback from our customers and much of that has been negative. There have been concerns out there; we hear that. I believe the process that has been gone through with this committee has helped our understanding because not only are we getting our own views from the bush but we are able to obviously read the submissions that have been made to your committee and the questions that you have come forward with.

It is just a question of putting all of that together. It is a continuum. We believe this seven-point plan of ours will go quite some considerable way to helping people out there. We do not pretend for one moment that it is every solution to every problem out there. Therefore, we will continue to do other things.

Mr ANTHONY—In your submission that you gave us back in February on the smart cards, you acknowledge that ultimately smart cards will be utilised for the receiving of many social security payments. There is the move now with child care to ensure that the money goes to the target, rather than gets consumed along the way. Is your association actively involved at the government level talking about the adoption of smart card technology in relation to social security payments and other areas, because obviously multiple types of transactions can happen on that card? Are you actively engaged in that area? If you are not, I suggest it might be a good thing to do that.

Mr Carroll—I think you would be aware of the processes that the government has been going through in this area with looking at smart cards for delivering transfer payments. There has obviously been consultation between the government and the banks on this issue. The ABA has not directly discussed any policy issues at this stage because, I suppose, we were waiting to see where those sorts of consultations led to—whether or not, say, the government was looking to introduce its own sort of smart card system or whether or not it would look at a bank or some other third party providing that sort of service on its behalf; all those sorts of dynamics. So at this stage the ABA has not entered into any discussions.

Mr Aveling—I think your point is that perhaps we should be suggesting, as an industry association, that because of the other developments this could help. We would be happy to do that.

CHAIR—That is good to hear. At the hearings we had last week with Centrelink, the department work is very much in its infancy, and it does need a bit of driving.

Mr ANTHONY—But you do not want to put too many fees in it either; otherwise you will have a far bigger public relations problem.

Mr Aveling—Yes. Should I answer the question on consultation now?

Mr ANTHONY—Yes.

Mr Aveling—What we are saying on consultation is that local communities, quite rightly, need to have a say and they need to understand what is happening regarding the provision of banking services. We accept that simply sending out a letter to say, ‘Your bank has closed,’ will no longer be appropriate. As far as consultation is concerned, what we are talking about is not when any decision has been made to close a branch that we will then go out to consult with the community. We are saying that, at the local level—and this could be at the regional management level and you have one of your branches in a country town—you should go along and talk to the community about the developments that are taking place in banking.

The way these discussions could go is: ‘We all know that branches are closing. The reason for that is declining populations. We are aware of the problems that this causes. In this particular town we have not made any decisions.’ Probably at the regional management level they would not be part of those discussions anyway because those sorts of things are often considered at head office level. ‘Let us consider what would happen in this town. What are the sorts of things that could help us to maintain the service? One of the things that could help us maintain the service would be if, instead of having a bank account at another town, you kept your accounts at the local town. That would make this particular branch more profitable.’ The local community might say, ‘We really do not need it open five days a week. Maybe if it was an agency three days a week we would be happy with that.’

Mr ANTHONY—There would not be many saying that.

Mr Aveling—We live in optimism, I suppose.

Mr WILLIS—That is not what we have been hearing.

Mr Aveling—They want seven days a week. I think they need dialogue. We have been to country towns to talk to people about the closure of branches. They do not particularly like it, obviously, but quite often it is not actually the closure of the branch that is the problem; it is the fact that you never sat down with them, you never listened to them and you never pointed out to them what are better ways of keeping this particular branch open.

I have been involved myself in situations in the past where we have downsized in the town and the local community have said, ‘No, don’t do that. We will transfer our accounts to your branch,’ and they sign petitions. You keep it open for a while—this is going back a few years—and you find that very few people transfer their account. But you want to give the local community an opportunity to contribute to the success of their local branch. Some of them could be like the Bendigo model, which said, ‘Why don’t we have a community bank here?’

Mr ANTHONY—When you suggest that you have a public forum to encourage

them to transfer their banking services from NAB in X town to their own town, there is obviously a critical point where a bank is no longer viable for a community. Do you assess that on rate of return on that bank in that town? The yardsticks that I have seen vary so much. Some banks in certain areas may well be profitable, but they are not meeting their internal rate of return. Could you elaborate to the committee what that benchmark is? If you are going to have these public consultations, then obviously there has to be a certain amount of volume and a certain threshold at which you are going to rip business off one of your banks and give it to another bank to make it viable. What is the actual cut-off point?

Mr Aveling—As you point out, not every bank has the same approach to the level of profitability and how they go about this. Basically, not only will banks look at the current level of profitability or loss in that particular branch but also they will look at the demographic changes that are taking place in the area, they will look at the customer usage pattern, including the use of other branches nearby, they will look at the customer preference pattern in terms of to what extent have they been switching across to the convenience of the 24-hour banking and the EFTPOS facilities, they will look at what other local businesses are closing or are likely to close and whether governments are going to withdraw more services in the area, and they will look at competitor action. All of these things get pulled into any model that a bank will be considering whether they are going to stay or not. There is no simple answer to at what point they will stay and at what point they will not.

Mr ANTHONY—There is no benchmark when you are assessing branches on performance. Is that right?

Mr Aveling—There is no single profitability level that they would go in and say, ‘Well, stay at that figure and we will close it down for you.’

Mr ANTHONY—Is there a minimum profitability level at all?

Mr Aveling—No, not that I am aware of.

CHAIR—Mr Aveling, just on that point about consultation, one of the complaints we have had is that many banks will tend to try to draw the accounts into the bigger centre before they make the decision to close. So, in many cases, the throughput to that branch has already been reduced by decisions taken within the bank as a whole. Are you saying that there is going to be a change of policy which would try to reverse that so that, if there is a branch that is just holding its head above water, you could say that the banks themselves will encourage customers who have moved to the bigger town to actually stay with the smaller town?

Mr Aveling—No, I am not saying that the banks would encourage customers to stay with a smaller town in a general sense. What I am saying is that if you are in ANZ,

for example, and you are in that town and people have been switching their accounts across to any number of competitors that may be in a larger regional town, what you will try to do is retain that business within your own ANZ branch.

CHAIR—If a lot of ANZ's customers moved to the regional town, would there be some policy to say, 'Hang on, if we are going to keep that going we ought to be encouraging them to stay where they are.'

Mr Aveling—I do not think we would want to get into the business of encouraging people to be in one branch or not in another. That is up to customer preference. If they want to be in the larger regional town because that is where they do their shopping, or it might be a bigger branch and they want to deal with a branch manager who has more authority, I really do think that is up to them.

CHAIR—If head office has made a decision they want to close a branch, they normally make it months before it is going to happen. The first thing that happens is that the customers they want to keep are encouraged to move across to the bigger town. It is business.

Mr Aveling—I cannot really answer that. My own experience has been that decisions are not made months before closure of the branch. It is usually a fairly rapid process between when the decision is made and when the local branch is closed. That has been my personal experience. I am not aware of the wider picture. I am not saying that it is not correct, but I do not know.

Mr WILLIS—Just reading the submission, it does seem to me a little unreal to claim that there has been an increase in the number of outlets in rural Australia because of the Australia Post and giroPost network. Certainly it is true that Citibank went from about eight branches to 2,600 or so through giroPost. That was a dramatic expansion of banking branches for Citibank. We also know that giroPost is a fairly unsatisfactory replacement for complete banking service because it does not include business banking.

One thing that has really come through to this committee has been the terrible importance that towns place on having business banking as well as personal banking. The loss of business banking is something that has a pretty severe effect on the economies of towns, usually forcing other businesses to go under eventually or to wind down to insignificance. So it has a major effect on the economic viability of the town if the last bank in town pulls out and leaves them without business banking. I must say that I find that comment a little unsatisfactory.

Your first dot point, talking about access to banking services, says that where there is no other service such as a credit union, building society or Australia Post then the banks will look at providing some service. If all that is left is Australia Post, that does not overcome the point about providing a business banking service. Do you have any

comment to make on that?

Mr Aveling—Yes. You are absolutely correct about the problems that do exist for small businesses. As we said in the original submission, it is small businesses and the elderly who have the greatest difficulty with the alternatives. There are a couple of possibilities as far as small business is concerned, and we acknowledge that what is put forward in itself will not solve the problem of small businesses. First of all, we would be seeking to work with Australia Post with the aim of allowing bank customers to use the giroPost network at selected locations. We would like to see extended the number of giroPost locations into places where no services are available at the moment. Certainly, we would like to talk to them about including small business banking at selected giroPost sites. We appreciate that there are a number of technical, operational and people issues that would need to be resolved. This is obviously a matter for Australia Post. We would like to work with them but it will take both sides, I think, to work constructively on this.

The second possible solution is that we mentioned after the seven dot points in our submission additional work that we will be doing on another technology solution where we can have these multibank terminals. I am always cautious about saying that we are looking at something because you never know whether you are going to be able to deliver or not, so we will see what comes out of that. This could be similar in impact to the reverse EFTPOS arrangement that this committee has no doubt heard about that Bank SA and Bankwest in particular have in place. We investigated reverse EFTPOS. Technically, it will not work on a national basis. It is too complex with the number of players that would be involved. What we are considering is something that would provide the same sort of functionality and, just as with the reverse EFTPOS, it does provide limited deposit services for small businesses. If this solution of ours comes off, then it will help people out there.

Mr WILLIS—It seems to me that the banks have a responsibility to not just say, ‘When we leave town, we will make sure there is some banking service there and we will provide something where there is no credit union, building society or Australia Post.’ As things stand, that means you could walk away and not have a business banking service. I think there is a responsibility to leave some kind of a business banking service.

With Australia Post, you say you are looking at provision of that at selected locations. You know that that is a real issue for them. They want it on an across-the-board basis, as it is with the nine banks, a building society and a credit union that are already involved. They say that to do it on a selective basis is technically very difficult for them.

It seems to me that there is a need for some decision by the banking system about whether it wants to provide a proper banking service to Australia Post or not. If there are additional costs involved to Australia Post, then it seems to me that the banks ought to be prepared to meet those as a cost of leaving at least a banking service available through Australia Post. They say that the extension of giroPost to other outlets, where the number

of transactions is less than their threshold for introducing giroPost, is costly for them. You are talking about an extension of giroPost to the 1,300 or so post offices that do not have giroPost. That is a cost factor for Australia Post. As for the small business banking at selected sites, again, if they are going to take on business banking, they would probably want to do that on an across-the-board basis rather than at selected sites.

We just seem to have this total stand-off where you are saying that it has to be selected and they are saying that it has to be across-the-board, and nothing is happening. We need a resolution of that issue. It is not just a matter of each side continuing to say, 'This is our position.' From the committee's point of view, I think that is totally unsatisfactory. We need the two parties to get together and work out what the costs are of providing a business banking service as well as a personal banking service at least in every town where the branches have been closed. If there are costs involved, they then need to come to an agreement about the sharing of those costs. My own personal point of view is that there is a heavy onus on the banks which are leaving the town without a service they have enjoyed for 150 years or so to bear most, if not all, of those costs.

Mr Aveling—Thank you, Mr Willis. What we are saying is that we are certainly very keen to sit down and hold these discussions with Australia Post. It will take two sides. And I am not saying that one side is being difficult at all; I am just saying that I agree with you, that it requires both sides to discuss these issues. We are certainly willing to do so.

As far as the duplication of the cost is concerned, the difficulties for the banks—and I do not want to bring you problems—are that, if you have already got a network of branches out there in country towns, which is a costly exercise, and then you increase your cost by signing up nationally for giroPost so that you have got duplication of facilities in those towns, the economics do not work. One solution would be to close more branches.

Mr WILLIS—Why does the Commonwealth Bank say that?

Mr Aveling—The Commonwealth Bank has been in this arrangement from the very beginning, which is very different from branches of other banks that have built up this branch network in these towns at times that they have not been part of the giroPost network.

Mr WILLIS—The bank is nevertheless there as a fully commercial enterprise these days. I am not suggesting in any way that I am aware that it is going to pull out of the giroPost system because it has got an adequate array of branches.

CHAIR—We have a slight problem; we have another division. There are quite a few more questions we would like to follow up, but maybe we could put them in writing. I think, if we try to read them now, we will have some difficulty.

Mr MUTCH—We are putting all the onus on the banks, but can you tell us what you think are the most important and influential things that a government can do to assist? I appreciate what you have written here. We are very happy to receive some advice ourselves.

Mr Aveling—If I could answer that very quickly, and I touched on it on the way through, as far as government is concerned, I think the biggest issue is that I do believe there needs to be an inquiry into the situation in regional Australia in total. We need to deal with the causes of the problems and not just the symptoms.

CHAIR—Okay, I do not want to cut you off, but we are going to miss a division. Thank you very much, and I apologise again for this rather unsatisfactory session, but it is beyond our control.

Resolved (on motion by **Mr Willis**)

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

Committee adjourned at 12.37 p.m.