HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON FINANCIAL INSTITUTIONS AND PUBLIC ADMINISTRATION

Reference: Regional banking services

NEWCASTLE

Monday, 27 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

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON FINANCIAL INSTITUTIONS AND PUBLIC ADMINISTRATION

Regional banking services

NEWCASTLE

Monday, 27 July 1998

Present

Mr Hawker (Chair)

Mr Albanese Mr Wilton

Committee met at 2.40 p.m.

Mr Hawker took the chair.

CHAIR—I declare open this hearing of the House of Representatives Standing Committee on Financial Institutions and Public Administration into alternative means of providing banking and like services in regional and remote Australia to those currently delivered through the traditional bank branch network. In the course of this inquiry, we have had a whole range of submissions from all around Australia, from every state and territory, and we are now up to about 130 submissions. There is no doubt that we have certainly generated considerable interest in what we are looking at. In relation to that fact, we have the following resolution.

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

That submission No. 130 from KPMG be received as evidence to the inquiry and be authorised for publication.

CHAIR—This afternoon we are hearing from Dr Argent and Dr Rolley, from the University of New England, who have conducted a study into the changing patterns of bank branch provision in rural New South Wales. We will also be hearing from the Australian Association of Permanent Building Societies, who have a significant involvement in providing regional services. Finally, we will be hearing from the Newcastle Regional Chamber of Commerce, who have conducted a useful survey of small businesses and groups significantly affected by regional and remote bank branch closures.

[2.42 p.m.]

ARGENT, Dr Neil Michael, Lecturer, Department of Geography and Planning, University of New England, Armidale, New South Wales 2351

ROLLEY, Dr Frances, Lecturer, Department of Geography and Planning, University of New England, Armidale, New South Wales 2351

CHAIR—I welcome Dr Neil Argent and Dr Frances Rolley from the University of New England to today's public hearing. I remind you that the evidence you give at the public hearing 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 received your submission, which is No. 120. Is there anything you would like to add to that or any material you would like to table?

Dr Argent—I do not have anything to table as such.

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

Dr Argent—Yes, just to give the committee a broader context in which the research sits. The submission is part of ongoing research that Dr Rolley and I are conducting into the impact of the globalisation of financial and economic activity, its interpretation through various scales from the level of the nation and state downwards, its impact upon rural communities and townships and why it happens at the local level in terms of reaction to and resistance to those sorts of changes. As I have just said, the submission is really part of ongoing research.

The submission aims to do two things, as it says at the start of the submission. Firstly, it aims to provide a geographically sensitive analysis and picture of the New South Wales rural branch network prior to financial deregulation and through to the present day. Secondly, we aim to present the real and complex processes influencing financial service provision in rural Australia, particularly in this submission focusing on rural New South Wales. Finally, given some of the findings from the first two aims, we aim to comment fairly briefly on some of the alternative modes of financial service delivery as well as their potential to meet local needs and the suitability of those alternatives—for example, the franchise type arrangements which we have seen in Trundle.

We have a very brief comment to make about the threats posed to some of the more innovative and locally empowering initiatives providing financial services to communities no longer with bank branch services and the threats posed to those by the merger activity, which has been sanctioned in the Wallis report. That is all I have to say about that. Dr Rolley, do you want to talk about the results?

Dr Rolley—Yes, I was just going to make some very brief comments about what we had found so far in this ongoing research. We looked at the complex trends in non-metropolitan New South Wales bank branch numbers for the study period from 1981 to the present day and we noted that the trends are very complex.

Broadly, we have isolated two trends in spatial realignment or rearrangement in bank branch networks. The first trend is a thinning out of the non-metropolitan bank branch network, with many small towns losing branch facilities, especially in the northern tablelands, the central west, the south-east and the Murray regions. That process has been accompanied by large and regional centres consolidating their position, in some cases with net growth in those regional centres, such as Coffs Harbour, Wagga, Lismore, Orange and Tamworth. So west of the Divide, there have been fairly complex trends in rationalisation and consolidation.

The second trend we have isolated has been a reallocation of branches in the more densely populated coastal areas, with rapidly growing areas of the coastal belt undergoing both growth and closure. Within areas of Newcastle, Wollongong and to some extent parts of the Hunter, there has been both growth of bank branch numbers and closure in the traditional industrial heartlands. So we wanted to highlight the very complex trends in non-metropolitan realignment of the bank branch network.

We sought also then to look at the non-Sydney localities that had lost all their banking services since 1981. Eighty-seven of those were in those areas classified as rural and remote New South Wales, using the rural and remote areas classification favoured by DPIE and the department of health. Those 87 localities had about half of the non-metropolitan bank branch numbers in 1981 but accounted for almost two-thirds of all non-metropolitan centres which had become branchless over our study period. Of those towns, most had their bank branches removed over the most recent years of the study period and certainly after 1991. Almost half of the 84 per cent that had their bank branches removed since 1981 did so since 1996, so there has been a rapid escalation.

We sought to look further at the notion that the closure of bank branches was part of the effects of long-term demographic change over the last 20 years and sought to explore whether the geographic and temporal patterns that we had isolated of bank branch rationalisation could be explained by long-term population change. As we said, this is part of ongoing research, and the first pass at this research was really just to look at those towns that had lost all of their banking services in that time.

We suspect that we cannot account for realignment in the network simply by long-term population changes. There has been vast postwar expansion in the network of bank branch service provision despite long-term trends in farm readjustment in those immediate periods post war, and of the 87 rural and remote towns in New South Wales that had become branchless and of the 72 that we could get data for, only a third of those localities had actually declined in population. The remaining 44 had grown in population over the study period. Our suggestion is that one of the important forces driving the reconfiguration of the branch network might not just be local and regional level population changes but perhaps corporate level decision making.

CHAIR—Thank you for those remarks. I thought we might just clarify a point. In your submission, you made the comment:

> It is obvious from the Inquiry's terms of reference that the present Federal Government considers the eventual dismantlement of the traditional rural bank branch network as a *fait accompli*.

How did you reach that conclusion and what do you mean by the word 'traditional'?

Dr Argent—To take your first question, we read the Wallis report and what it had to say in its lengthy deliberation about branch banking and the comparisons with international levels of branch provision and the like, but I suppose it did not reach much of a conclusion on that. We read the terms of reference in a fairly detailed way—and I have not got them in front of me—and I suppose they suggested to us that what we were looking for were alternatives to traditional forms of providing financial services to rural communities. Given what has been going on—and there is not necessarily a pejorative slant to that comment—we were just saying that this seems to be the reality of that.

Dr Rolley—There is the conventional wisdom that rural Australia is overbranched.

Dr Argent—Yes. In terms of a traditional branch network, I suppose it is a matter of debate what you would call traditional. Certainly what Fran has just said was that there was a quite rapid expansion of the branch network in the 1950s, 1960s and into the 1970s as well. Do you say that that is traditional? Perhaps the word 'traditional' is not the best term for it, but certainly in providing branches in smaller towns rather than concentrating in larger regional centres.

CHAIR—But do you feel that to draw that comparison with the 1950s and 1960s is really all that valid given the change in people's lifestyles and a change in the technology that is now providing alternatives to what we call traditional type banking services? Is that a valid comparison?

Dr Argent—I am not necessarily drawing a comparison as such. I guess what we are saying is what is a reasonable baseline set of access to financial services. You can say, 'Yes, there's been a lot of technological change, certainly over the last 10 years or so,' but I think that is sort of running ahead of what local needs and demands are. If you pull a branch out and you pull all physical access to financial services out in the rural community, telephone banking and Internet banking are not going to solve those sorts of problems.

CHAIR—Maybe we can put it in another way. What are 'local needs' in your definition?

Dr Argent—Having physical access to cash and to be able to deposit cash and to run a business in those ways.

CHAIR—Does that necessarily require a traditional branch, though?

Dr Argent—Again, it does not necessarily require what you would call a traditional bank branch. It certainly requires physical access to a financial service of some sort where you can access financial services and be able to deposit money, able to get money out, able to conduct transactions and able to receive financial expertise on various matters.

CHAIR—The committee this morning has just come from Canowindra, as you may be aware. One of the things we were looking at was an agency that has been set up in a newsagency there. That does provide most of what you are saying. The bank—in this case Westpac—would argue that their lending services can be provided by a mobile manager in a car. What is lacking when you talk about local needs with that?

Dr Rolley—My concern would be partly an extrapolation from the fairly extensive work I have done with the provision of health care services. My work would suggest that it is very important to look at the preferences of rural people for the delivery of services. My work suggests that rural people have a very strong attachment to face-to-face service provision and that they will not access services they do not consider appropriate. I believe that there might be some issues to do with confidentiality and to do with the acceptability of those sorts of franchising or agency situations that may not, in the face of no other research to suggest that they are appropriate, be appropriate to rural communities.

CHAIR—So you have not done any work to ascertain that point?

Dr Rolley—I would hope that one of the next phases of our research would be exactly that.

Dr Argent—Can I just take a point. We were talking about this on the way down. The banks are obviously starting to take notice of the high level of antipathy that is coming to them for services being withdrawn in the way they have in the recent past. Now they are starting to work on more locally suitable and flexible arrangements. As we said, if it looks like a branch, if it acts like a branch, if it meets the needs of local people, that is fine, but what is not meeting the needs of local people is pulling a branch out at a minute's notice and then expecting people to drive long distances to conduct fairly normal day-to-day financial transactions—trying to run a local business or trying to get access to your pension cheque to do your grocery shopping. We are saying that, if they are coming around to providing services that are not necessarily in the form of a traditional branch and they are still meeting those needs, that is fine.

Mr WILTON—Do you have any evidence which suggests that the wealthier members of a particular rural community, be they business people or farmers, tend to bank outside the local town and, if so, where? And what would be the minimum number of people in a specific rural town that you believe could sustain a bank branch as we have traditionally known it? What number of clients could sustain a bank branch?

Dr Argent—On the first question—whether the wealthier people actually left—we have no evidence.

Dr Rolley—The banks have for some time been attempting to siphon off that sort of business from the smaller communities and centralise the provision of those sorts of services. I cannot remember what the banks call those sorts of development banking situations. So there has already been a move to hive off those sorts of services. The issue of critical mass in the provision of services is a very interesting point and one that needs to be explored. However, in many ways, without input from the banks in the consideration of viability, we cannot answer that question.

Mr WILTON—You said, in answer to the chairman's previous question, that the majority of alternative new technology base banking methods are likely to be unsatisfactory. Is it within your academic domain to advise the committee on what forms of banking you might deem to be appropriate and satisfactory to replace the traditional over-the-counter arrangements?

Dr Rolley—I would not like to advise the committee on that without doing some primary research into the preference structures of rural communities. I do not know that we know what rural communities deem as acceptable modes of delivery. We might have some feelings about what might be inappropriate. I am sure there might be some communities who would deem franchises or the ability to access their financial services through the local club or the local hardware store as inappropriate for a whole variety of reasons.

Dr Argent—That is not to say that all of the alternatives are likely to be inappropriate.

Dr Rolley—No, indeed not.

Dr Argent—As we said in our submission, we are particularly impressed with the community bank initiatives set up by Bendigo Bank. We have also said that the CreditCare initiative is extremely important. As Fran said, this is part of ongoing research. We are looking at the changing provision and geographic distribution of credit unions as part of this research. It is not something that we have completely finished at the moment, but there is a range of initiatives that will provide those sorts of services. They do not even have to come from the banks themselves, if they choose not to provide them for whatever reasons they consider appropriate. As the chairman has said, things like lending have gone regional—as Fran has said, lots of things have gone regional—and you only have to look at the maps provided in the submission to realise that is what is going on as well.

Mr ALBANESE—I want to take up Greg's line of questioning. When you speak about communities, of course they are not homogeneous communities. The anecdotal evidence suggests that one of the incentives to pull out of communities is that the people who are demanding the face-to-face services are the less profitable individuals in a particular community. Your research, from what I have got from your submission, does not differentiate between people within those communities. Have you done any research into the different impacts on people in a local town, be they small business people, farmers or pensioners, and how they respond differently?

Dr Rolley—The short answer is no. The longer answer is that we have a range of taxation data waiting to be analysed to look at what the economic profiles of those communities that are now branchless look like.

Dr Argent—Certainly similar research from other colleagues in New Zealand suggests that it is very much the elderly who get left behind. One of our concerns in this has been that the banks, until the recent past at least, have been pushing ahead of local community needs, particularly exalting the benefits of electronic means of providing financial services. It is the elderly who are quite often concentrated in these sorts of communities and are left behind.

Mr ALBANESE—In your submission, when you refer to the Wallis inquiry and finance sector regulation, you talk about the need to have a 'flexible, spatially nuanced approach'. Can you put that into English or define that for us mere politicians?

Dr Argent—What we are saying there is that the trend towards looking at things like competition policy—that is a hot issue at the moment—is to look at it as though a society exists on the head of a pin and everybody has perfect information, equal access to resources and the like. That comment is particularly focused on, say, the community bank initiative of the Bendigo Bank. We know that there is a lot of pressure on the profitability of the smaller regional banks. There is a high degree of manoeuvring within the four major trading banks for a merger between them and also between them and the smaller regional banks. I suppose that comment is saying that it would be a tragedy for local communities who had worked extremely hard to develop and put their own capital into providing a bank branch in their own local community to benefit that local community if that were to then be undone by, say, a merger between one of the larger trading banks and a regional bank like the Bendigo Bank and then that was all closed down. So it was saying that there needs to be a geographically and socially sensitive look at competition policy and regulation.

Mr ALBANESE—What would you think about a proposal for a compulsory levy on the banks to ensure that they provide these services in regional and rural areas?

Dr Argent—Looking at it purely from the issue of distributive justice and social justice, I suppose it has a nice appeal to it. We have done some work with that income data. Rural and remote areas of the state of New South Wales generally, during the 1990s, are of the order of 25 per cent below the New South Wales state average annual income. We have not disaggregated that in terms of the places that have actually lost bank branches. On that ethical level of social justice, that is appealing. Whether it will work in getting banks to hold branches, if it can be used as a way of supporting the CreditCare scheme or some other way of providing financial services or compensating local people, that may be a fine thing.

CHAIR—Can you explain the connection there? I am mystified. You are talking about bank branches and incomes.

Dr Argent—Yes. I said, to start off with, from an issue of social justice in people having a bank branch moved from them which imposes upon them, generally speaking, more travelling time.

CHAIR—But you are talking about income levels, economic levels, being 25 per cent lower. I am trying to work out the connection between that and bank branches.

Dr Rolley—There is some work from overseas which suggests that there are areas of financial exclusion and a return to the heartland of banking services, because in areas where incomes are lower or where the viability or the profit margin is not so high then bank branches are retreating.

CHAIR—My point is that, if we want to lift income levels, it is not a question of more banks, is it? It is something else. There is an economic driver there.

Dr Rolley—I do not think we were making the link between—

Dr Argent—No, we are not making that link. We are just talking about access to financial services.

CHAIR—Can we come back to the KPMG study, which you have obviously looked at. What consultation have you had with KPMG over it, either before or after your—

Dr Argent—None whatsoever.

CHAIR—You have made an assertion that you wondered what the real brief was that KPMG had. I am wondering what you based that on.

Dr Argent—We were extremely concerned at the methodology taken to produce that report. First of all, why would you look at all of the areas that have experienced population decline in Australia and then look at what is going on in terms of service provision and say, ‘Guess what? These places have been losing services, including bank branches: ipso facto, population decline, in a broad sense is driving branch closures’? To us, as academic researchers, that seemed a rather strange methodology to use to try to come to that conclusion.

CHAIR—I am just curious as to why you would not have consulted with KPMG to get their response.

Dr Argent—It was the Australian Bankers Association submission. We asked for a copy of it, went through it and it seemed strange to us. As part of our submission, that was the gist we made of it.

Mr WILTON—In the context of classic geographic theory, in a homogeneous area, is the whole notion of the equally distributed, spatially uniform hamlet, town, city being broken down in this country for a whole range of reasons? If so, what might some of those reasons be?

Dr Rolley—I do not think the Cristaller notion of urban hierarchy fits Australia, certainly not.

Dr Argent—Certainly mobility is changing.

Dr Rolley—Changes in the farm sector, farm sector employment—a whole range of postwar factors—have led to the demise of that sort of hierarchy.

Mr WILTON—What then do you make of—this is on a different tack—the RBA’s tendency to classify banks as metropolitan or non-metropolitan? Why do you disagree with that classification system?

Dr Rolley—That is really where we started from. We were concerned that that disaggregation of data was really fundamentally flawed in looking at the real spatial patterns of changes in bank branch numbers, especially once we discovered that as part of the non-metropolitan split we included Newcastle and Wollongong and areas which, on most other geographical classifications, would be considered as metropolitan areas. We thought that that distorted immensely the figures of what was really going on in rural and remote areas which was our concern.

Mr WILTON—As we have flown into some of the smaller country towns, seeing them from the air one cannot help wondering why would any reasonably far-sighted bank put a branch down there. Why should banks put branches in towns where they might not be reasonably sustainable?

Dr Argent—No reason, I suppose is the answer to your question. If they are not reasonably sustainable, there is no reason.

Dr Rolley—However, without knowing how the banks define ‘viable’, ‘reasonably sustainable’ or 'critical mass', we cannot comment. The interesting thing is that many of those towns had many bank branches up until 1996.

Dr Argent—That is a fair context to put it in. The bank branch network grew in response to a particular approach to regulation and now it is changing very much in response to a different form of regulation. It is changing all the time. As I said, the research does not say at any stage that the banks need to maintain branches in all areas and that it is irresponsible of the banks to do otherwise. That has not been part of our brief. As I said, this is the first phase of ongoing research.

You do wonder how a bank branch did survive in some of these small places. That is a fair enough point. I suppose what we are concerned about is where they have been closing them down with little consultation with local people and effectively—this is a phrase we like to use—privatising the benefits and socialising the costs involved in closing down the bank branch network. From a social justice point of view, that is something that has concerned us in terms of the people who are left behind, in terms of regional development and in terms of travel times and distances people have to drive to run a local business and the like. It has been those sorts of issues that have concerned us.

CHAIR—Time is escaping us, as it always does in these hearings, but I have a couple of quick questions. When you talk about the loss of all banking services, do you exclude some of the alternative financial institutions or indeed some of the smaller banks holding branches in areas where the majors may have moved out?

Dr Rolley—No, we have not excluded them.

CHAIR—For example, an agency arrangement.

Dr Rolley—We looked at all bank branches and agencies where we could identify them as agencies.

CHAIR—For example, Australia Post is an agent for the Commonwealth in most places.

Dr Argent—That is true, but it does not provide the full range of services that a bank branch once did. It is said that an Australia Post agency is a sufficient replacement for a bank branch. To us, that is not true. There are Australia Post agencies through many towns across rural Australia, where there has been a bank branch or not. Certainly, they are providing bank services, apart from having a fully staffed bank branch circa 1950 or 1960. As we have said, if it acts, smells and sounds like a bank branch in any other way, it is not a bank branch, but if it meets the local needs that is fine.

CHAIR—So credit unions, for example?

Dr Argent—Yes.

CHAIR—Does the seven-point plan that the ABA has put to the committee meet many of the concerns you have raised?

Dr Argent—We have not seen it. We would like to see it, but we have not.

CHAIR—It is a public document, so I am sure we can arrange to get you one.

Dr Argent—We would like that.

CHAIR—Thank you for appearing before the committee. We certainly appreciate the time you have taken to come here to Newcastle.

[3.14 p.m.]

FRITH, Mr Howard Milton, Managing Director, Newcastle Permanent Building Society Ltd, 307 King Street, Newcastle West, New South Wales 2300

LARKEY, Mr James, Executive Director, Australian Association of Permanent Building Societies, P.O. Box 9021, Deakin, Australian Capital Territory 2601

CHAIR—I welcome Mr Jim Larkey and Mr Howard Frith from the Australian Association of Permanent Building Societies to today's public hearing. I remind you that the evidence you give at the public hearing today is part of the proceedings of parliament. The giving of false or misleading evidence can be considered a contempt of the parliament. The committee has received a submission from you, submission No. 65. Is there anything you would like to table or add to it?

Mr Larkey—No. I might just update ourselves because submission 65 was a fair while ago.

CHAIR—Please proceed.

Mr Larkey—Briefly, in our submission we gave you maps of the regional network of the building societies. Therefore, those little ant dots over the maps of the various states indicate the representation of the industry. It is interesting in that the latest figures indicate that in fact building societies have increased the number of branches around Australia rather than reduced them. For that they will be severely criticised by the financial writers, but for the communities they are serving we think that that is going slightly against the trend. At the present time there are 22 building societies around Australia. As we said, the vast majority are independent financial institutions. Many of them are mutual institutions. There are a number of significant building societies which are part of conglomerate financial service organisations.

Whilst conversion to regional banks has been one of the major changes resulting from deregulation of the financial system, our business is nevertheless still significant. We have two million people with accounts with building societies and we employ about 2,500 people around Australia. The growth in the latest figures available has been quite good. It is 10 per cent in the assets of the industry. The building societies offer a full range of retail financial services and electronic methods of service delivery. We are price competitive to banks and to mortgage originators. You can observe in any of the personal finance columns that our interest rates are very competitive, particularly in our staple business of housing finance. The societies have remained very competitive in the regional cities.

Having stated that, obviously we are traditional housing financiers. Eighty per cent of our asset book is in housing mortgages. We very firmly support this Treasurer's reforms of the financial system. We are very pleased that the parliament finally agreed to a lot of the legislation which was essential, but let me stress and take this opportunity to say that the legislation relating to bringing the building societies, credit unions and others into the federal jurisdiction has not yet been presented to parliament. We are concerned that it does get presented and that, when it does get presented, it proceeds fairly quickly. We understand that both the major parties are supportive of the thrust of that, but the uncertainty of politics concerns us that—

CHAIR—We live with it everyday.

Mr Larkey—We have a joint concern there. Let me say without any doubt that we support the trend of what is occurring. The states do in principle also, although there are still some state governments who believe that if they prudentially supervise us that in some way means we are going to preserve our regionality and our regional branches. The two are quite separate, as we will possibly discuss.

The question is putting the financial reforms into practice. There have been a lot of reforms under the previous government and this government to put the credit unions, building societies and others on a level playing field with the banks. That is a breath of fresh air, because frankly we have spent 20 years convincing, and not very successfully, successive governments that that is what should take place. With the Wallis inquiry, the ultimate club, if I may say, has been unscrambled. We now have an independent Reserve Bank, we now have the banks prudentially supervised much the same as ourselves and we now have markets available to us which we were precluded from. That is one of the obvious reasons we support it.

At the margin, the building societies certainly play a significant role in keeping the major financial institutions on their toes, particularly in our traditional lending products and deposit products. In terms of the suggestion that there might be a levy on the banks for a fund, we do not comment on a levy on the banks, but we would not be a contributor to a levy for a fund for the purposes of in some way subsidising bank branches of any financial institutions. We pay very substantial costs at the present time and that would be just an additional cost on our industry and we have not been closing the branches that the subsidy is designed to fix. I thought I would make that comment in view of the question that was raised.

One of the reasons for meeting you in Newcastle was to have the benefit of hearing from Howard Frith, who is the chief executive of the largest building society in Australia. If you could give him a few minutes, I would appreciate that.

Mr Frith—I would like to give a brief overview of the operations of a regional financial organisation. Newcastle Permanent is a mutual financial institution serving the Hunter and Central Coast regions of New South Wales. Our aims are to provide flexible and affordable lending packages for a range of requirements, from the purchase of houses and land to financial investment purposes, and to offer a range of competitive and secure investment and savings products. The society also provides a suite of financial services to complement its lending and deposit products. We operate the largest branch and ATM network in the region, with 38 branches extending from the Central Coast through to Muswellbrook in the Upper Hunter. We also have a branch at North Sydney which services the northern sector of the metropolitan area.

CHAIR—Do they all have ATMs? I am not quite clear what you just said.

Mr Frith—Not all of them have ATMs, but it is the largest ATM network. It is close enough to every one.

Our branch network enables us to maintain a strong regional presence and to provide the efficient and friendly face-to-face service which our customers tell us they value. This face-to-face element of our service is supported by a wide range of electronic services that provide convenience and flexibility. These include

ATM and EFTPOS outlets, direct entry and transfer options, telephone banking services and an international card.

A recent survey conducted by *Choice* magazine revealed that our members were among the most satisfied of any financial institution in Australia in terms of customer service. This reinforces our belief that attention to detail in consistently delivering quality service is what most people are looking for from their financial institution.

I believe that every business has a moral responsibility to act as a good corporate citizen. Consequently, the Newcastle Permanent has always and continues to provide a strong and active level of community support through sponsorship of a variety of events and initiatives. These provide enhancements to the quality of people's lives and complement the service levels that we provide through our branch network. Some of the examples of this community support include a breast cancer education officer in conjunction with the Breast Cancer Institute of Australia, founding support for the Hunter Medical Research Foundation and specific support of research in prostate and colorectum cancer.

The society was the major sponsor of the Newcastle bicentenary project. That involved production of a book of short stories written by authors who had an association with Newcastle. All proceeds from the sale of this book were donated to the construction of an Aboriginal accommodation centre in the grounds of the John Hunter Hospital. The initiative won recognition as a community project with a national reconciliation award. We also support a wide range of educational, cultural, sporting and community events throughout the region. The society is proud to be able to share with our community the rewards of financial success. This success is a consequence of the support that the community shows the society—a true example of the benefits of mutual organisations.

Over time we have seen a very strong bond develop between the society and the people of the region. A defining series of TV commercials based on the 'our town' theme was developed during the early 1980s. These ads represent for the first time ever in Australia an alignment of regional identity with the image, service and culture of financial institutions. The sentiment that these advertisements evoke remains alive today.

The Newcastle Permanent is also a large employer with over 400 staff, all drawn from the local community. This strengthens our regional presence and the relationship between the society and its members. A key element in the Newcastle Permanent's long-term success has been the level of support we receive from our members. This success has been achieved in spite of restrictions imposed by legislative and regulatory impediments to open competition with the banks.

We look forward to the implementation of the Wallis report recommendations which go a long way towards creating a true level playing field for all financial institutions. In particular, for building societies, it will create full access to the payments system, the right to issue cheques in our own name and wider access to funding will enhance our ability to compete as well as broaden the range of services that we can offer. Both members and the wider community will benefit from this. Thank you, Mr Chairman.

CHAIR—Thank you. Mr Larkey, I am just curious. You said in your comments that you would be criticised by the financial writers for expanding. Why is that?

Mr Larkey—The usual criterion that the writers apply is a cost to income ratio, and the bank with the lowest cost to income ratio has the best share price. In the case of mutuals, whilst there is pressure on management, there is not that intense pressure to maximise one's share price. We tend to look at our performance per employee and other measures of efficiency rather than the generally used banking measure of cost to income ratio. That is basically the reason for being criticised. If you put your costs up, you are immediately criticised by the market.

CHAIR—You were talking about expanding. Is that expansion because you are gaining market share in areas where there is already a bank or where there has been a closure of a bank branch—or both?

Mr Larkey—To my knowledge it is not necessarily where there are bank closures; it is where the society has decided there is sufficient business to justify a branch. I think it would be misleading to say that we are looking to where branches are pulling out and putting in branches. I do not think that has occurred, to my knowledge. It is just the society moving and following the trends in population and demographic development, I suspect.

CHAIR—In your submission you talked about increased interest in Internet banking, particularly given the increased security in using that type of banking. Can you expand on that a bit?

Mr Larkey—The question of the Internet and the use of it is certainly on the agenda for the societies to consider. The building societies historically have been quite innovative in the adaptation of technology. The Internet is not one that we are not going to get involved in. Perhaps I can ask Howard to comment on that.

CHAIR—Sure, please do.

Mr Frith—I think you touched on a very serious subject, Mr Chairman, and that is security—security from the robberies that have taken place in the finance industry. We just had one recently at our North Sydney branch. It was quite an horrific robbery where they bashed in the door. But the trauma that these staff suffer at the time and suffer from thereafter is enormous. Unless you work in the industry, the wide community do not appreciate the problems associated with robberies. We have seen a trend towards Internet banking and telephone banking, and we do have telephone banking, but there is still the face-to-face banking that people do require.

CHAIR—When you talk about expanding, have you actually initiated some Internet banking or is it something you are working on?

Mr Frith—Internet banking is something we are working on—that, Bpay and electronic banking. You only move into those areas where your customers require them. It is no use pushing those areas on to customers if they do not require them because they will not use them.

Mr Larkey—The challenge for management is to know when to offer some of these products. We are saying that we definitely think it is a path for the future, but there is no-one doing it yet.

Mr WILTON—Has there been much evidence of building societies moving into towns that banks have moved out of and, if so, how do you determine whether or not you should move in? What are the criteria for such a relocation?

Mr Larkey—There is not a great deal of evidence for the first part. I think Howard is better qualified to answer the next one.

Mr Frith—I have been around for a long time. In Newcastle we had every bank and finance company for 20-odd years. We have seen those move out and we are still here. We have not had to move into any of the areas where banks have pulled out; we have already been there in our area of operation. I do not know if that answers your question.

Mr WILTON—In part. Have there been any areas that building societies themselves have moved out of?

Mr Frith—Not in our area of operation.

Mr Larkey—Some of the societies have closed branches, but some of them have opened them as well. Clearly, some of them are anxious to ensure their costs are in proper balance with their income, despite our earlier comments. So there have been some branch closures. But they have not been in regional areas where there has not been some other financial activity. The societies are not really in the very remote areas of Australia that sometimes get the publicity.

Mr WILTON—Would the association subscribe to the seven-point plan recently released by the ABA in terms of bank closures going to the questions of six weeks notice, client training and not leaving a town without any particular form of electronic type banking? Is that seven-point plan something that you would generally agree with?

Mr Larkey—I would think so. If I were in the banking industry, I would have done something about that sort of problem. It seems only reasonable that it should be done. We are really not in the business of passing judgment on their performance or their efforts to overcome the problem. But I think it is reasonable that those sorts of things would take place. As far as consultations with government are concerned, which I think was one of their points, we would be quite happy to participate in that.

Mr WILTON—How many towns in New South Wales, for example, would there be a building society but no bank branch?

Mr Larkey—I would have to take that on notice. I do not know offhand.

Mr ALBANESE—Given that the Wallis inquiry recommendations—as you have said, Mr Larkey—will create a more level playing field and enable you to compete more, why wouldn't you agree to the proposed levy on banks to ensure that there are some financial services remaining in rural and regional towns? Why wouldn't building societies say, 'This is a chance for some good PR, and we are happy to participate in such a scheme'?

Mr Larkey—On the levy side, it does appear to me that the problem is one for the banks to grapple with in conjunction with the government—

CHAIR—Hang on, it is not the government.

Mr Larkey—Sorry, with the alternative Treasurer proposal. There has been a number of occasions in the past where governments of both sides have been very generous to banks by way of cash subsidies and, on every occasion, the building societies have been excluded. So it is somewhat disingenuous if the banks were suggesting that, because they are going to be levied, all the others should be in a level playing field situation. It is first their problem in the sense that they are leaving, obviously, for their own benefits.

We have not been withdrawing our branches from those rural areas, primarily because we were not in some of them. Also, as has been mentioned, the banks are likely to have a very substantial reduction in their cost of prudential supervision—maybe of the order of $200 million per annum. Our cost of prudential supervision is, and has been for the last eight years, more than the actual cost of the prudential supervision costs of the Reserve Bank.

The cost of supervision of the building societies' credit unions and the friendlies has, in aggregate, been of the order of $12 million per year. The figure that the Reserve Bank has stated is that the cost of its prudential supervision department is $10 million. That is to supervise some $540 billion worth of assets. In our case, more money is spent on supervision for a lot less assets. For those reasons, we would feel somewhat leant upon if we had to contribute to the scheme.

Mr ALBANESE—Would you agree that given, as you have pointed out, that the banks stand to benefit to the tune of something like $230 million on the basis of reduced supervision costs, it would be reasonable for them to embrace such a scheme which might cost them $20 million, or do you think they are being mean-spirited?

Mr Larkey—Our view is that those sorts of schemes need to be analysed very closely in terms of efficiency and administration. There have been a number of cases in the past where agencies have been set up to provide subsidy. Governments change and policies change, the subsidy varies, the administration is not what it should be and so tough decisions have to be made as to which town is going to be blessed and which is not. We think that if subsidies are to be made, they should be made to people who have a case for being subsidised for financial services directly rather than in some obscure way, if I may say, like this mechanism.

Mr ALBANESE—On a different issue: in your submission you speak about new and substantial costs being imposed by government on financial institutions. What are they in terms of building societies?

CHAIR—There are two Victorians here.

Mr Larkey—The most substantial cost imposed by governments is the Credit Code. The cost of the

Credit Code has been many tens of millions of dollars. The average person's benefit would appear to be that his wife gets a copy of the statement and he does too—that is the benefit that I see because that is what I get. We think that the principles of the Credit Code are fine, but the difficulty is in the implementation—it is very prescriptive, black-letter law. We would have preferred that issue to have been handled on a national basis by a federal government, and we may then have got what I might call a less prescriptive approach to consumerism. The Credit Code has been an enormously costly exercise for us. For the small financial institutions which we want to support, those sorts of costs can mean almost a terminal situation in some cases.

CHAIR—To follow up on the question of credit care: have you had much success—and I understand that there may have been one or two?

Mr Larkey—Yes, I hear that there were one or two. It is not something which the building societies have prosecuted. I think that is fair comment.

Mr Frith—Yes. When I was reading the article, I was surprised that there were two building societies involved. I am not aware who they are.

CHAIR—It is not an area that you are looking to get involved in.

Mr Larkey—No, I would not have thought so. I think again that if there are subsidies to borrowers because of certain qualifications, then obviously we want to participate in that—and we have in the past. Subsidies which you base business decisions on have an awful habit of disappearing and then the business is not as viable as you thought it was with the subsidy. I think that is the general philosophical concern of the building societies. If you establish a business, make investments, make commitments, and then all of a sudden the subsidy disappears, you should have a plan for that.

You can plan for it but, philosophically, we are of the view that if there are special people in the community who need assistance—and I am sure there are—we want to help them, but if it is below what we can do, being as efficient as we can, then it is a government role.

CHAIR—As there are no further questions, thank you for your submission and for taking the time to come before the committee today.

Mr Larkey—Thank you, Mr Chairman; we appreciate the opportunity.

[3.47 p.m.]

SIMMONS, Honourable David William, General Manager, Newcastle Regional Chamber of Commerce, PO Box 37, Newcastle, New South Wales 2300

CHAIR—Welcome. I remind you of the words that you have spoken more often than I have so that I do not have to say them again. The committee has received your submission, No. 50. Is there anything you would like to table or would you like to make a brief opening statement?

Mr Simmons—I welcome the opportunity to make a brief opening statement to highlight a couple of issues from our relatively brief contribution to the committee's deliberations. The Newcastle Regional Chamber of Commerce welcomes the committee's investigation into regional banking and like services. At the time the committee called for submissions to the inquiry, the chamber decided to seek the views of its members. We represent more than 700 member companies throughout Newcastle and the Hunter region, although principally our members are located in the local government areas of Newcastle, Lake Macquarie, Maitland and Port Stephens. We felt that it was important to do so because, at the time the committee was calling for submissions to the inquiry, there was a number of newspaper articles and broad media commentary about the nature of banking services in regional and rural Australia. I have drawn three to your attention: one from the *Sydney Morning Herald* dated 18 December 1997, which was included in the chamber's submission; a second one of 8 November 1997, which drew attention to the fact that the Hunter region was allegedly the worst hit in the state by bank closures; and the third, an article in the *Sun-Herald* of 16 November 1997, which again talked about the aspect of banking services in regional Australia.

Conscious that our members, like a lot of small businesses, do not like a lot of paperwork, we decided to keep our submission relatively short. A copy of this submission has been provided to the committee. We essentially asked three basic questions: have you been inconvenienced by the closure of a bank branch, are you experiencing difficulties in accessing normal transaction arrangements, and can you provide a cost, or an estimate of a cost, to your business by the closure of any bank branch? We gave open invitations to respond with additional comments, if that was desired.

We received 81 responses, which represented about 11 per cent of our membership. So I suppose in terms of the usual expectation of scatter-gun surveys like this it was not a bad response. Although 91 per cent of our respondents were businesses principally located within the Newcastle and Lake Macquarie local government areas, the replies as such probably did not really reflect the type of background that the committee was looking for, particularly in respect of regional and remote Australia. Nonetheless, we did point out a number of issues that came back, particularly by way of unsolicited comments made on aspects of bank closures, and I mention in my submission some of those common themes.

In putting together some recommendations that we thought appropriate under those circumstances, we made four points. Most of them are fairly obvious, you would think, although at times, judging by some of the reactions in past years to banks in regional and rural areas, perhaps not so basic. First of all, banks should realise that there may be additional costs to business arising from any decision to close banks in particular suburbs and smaller rural centres. In the case of smaller rural centres, it may mean the additional costs in relation to physically taking the funds from their own location to a distant one or it could in fact mean lost time away from their business in respect of those sorts of travel arrangements. Also, if in fact a particular bank that a business has been dealing with in the past closes down and leaves them with an alternative within the same community and they decide to sign up with that bank, there is obviously an inconvenience and, therefore, a cost involved.

The second point is that, if banks are in fact looking at moving out from regional and rural areas, we believe it is important they should seek input not just from fairly obvious sections of the community like the local government authority or high-profile community groups but from business organisations such as the local or regional chamber of commerce.

The third aspect is that we believe there should be some alternative means of allowing businesses to reduce the amount of cash on their premises, particularly again in smaller rural centres where those banking services may be at another larger centre some distance away. We are conscious here of the increasing propensity for armed hold-ups not just of banks, building societies and other financial institutions but indeed other centres where thieves are conscious that significant sums of money may be kept on the premises.

Finally, we are saying that, recognising that there will always be changes in the way in which banking services are provided in regional and rural Australia, there should be awareness programs developed by the banks, particularly aimed at the business community in centres, about alternative means of carrying out those banking transactions in a security conscious environment—conscious of the security concerns, as I said a few moments ago.

I do not have any magic answers as to what the nature of those awareness programs would be, but I put it to you that, either individually or through organisations such as the Australian Bankers Association, there should be the collective will to look at those sorts of awareness programs because it is going to be, if it is not already, a significant issue for those businesses operating in regional and rural Australia. With those opening remarks, thank you for the opportunity to make the submission and I welcome the opportunity to answer any questions that the committee may have.

CHAIR—Thank you for a very clear presentation. You talked about alternative means of reducing the amount of cash that has to be kept on hand, and I think that is something the committee is very conscious of and knows is causing quite a few problems in most regional areas. Have you or the chamber done any work on what alternatives might be pursued in that area?

Mr Simmons—One clear area is the increasing use of electronic transfer of cash, through EFTPOS or other similar means, which obviously allows businesses that are receiving cash to also pay out cash for the convenience of their particular customers. But I understand that, depending on the size of the business that is providing that EFTPOS service, that could be a significant imposition as far as the actual cost imposed by the banks. In relation to those smaller rural centres—and there is always the difficulty in defining what is a small rural centre, but one where there was no obvious bank, building society or other financial institution perhaps could fit the category of a small rural centre—the banks that are providing EFTPOS services to them should in fact take that into account when striking the charges for the use of those services.

CHAIR—That is an interesting point that you raise. Have you any sort of indication of what the current cost might be versus what it could be reduced to to make it more attractive?

Mr Simmons—Not in recent times. In a previous life I was certainly aware of that particular aspect because it was brought to my attention by a number of businesses operating in small rural centres in the central west of New South Wales, where I previously lived. Certainly I have not got any up-to-date information about those charges or costs to businesses.

CHAIR—In relation to the costs to businesses when a branch closes, you mentioned $60 to $150 a week, and you did elaborate a bit on that in your remarks. Can you give us a bit more of an idea as to what types of businesses specifically have been most affected by that?

Mr Simmons—I certainly have the information available in terms of the specific respondent but as the survey was meant to be an anonymous one on behalf of our members, I would feel a bit reluctant to provide the specific detail. It largely covered the retail area, in particular small businesses associated with things like newsagencies and the smaller hardware stores—the provision of those types of goods and services—rather than the larger businesses like the big retail chains.

Mr WILTON—Mr Simmons, the ABA recently announced that it would, as part of a whole package to assist the problem of rural banking, engage in a series of ongoing consultations with the community. Has the chamber had any negotiations with any bank in relation to their future or to closures in particular?

Mr Simmons—No, we have not. In the 15 months that I have occupied the position there has not been an approach either from the ABA or from individual banks in relation to that, although, clearly, most of the banks are members, as well as building societies and credit unions within the region. When we were making a submission to the House of Representatives committee, I did have contact with the senior staff of one of the banks within the region who were interested in finding out the type of approach that we were going to be taking. In fact, I indicated at times that we were not on an exercise of bank bashing as such, but rather that we wanted to take a constructive attitude to the way in which banking services could continue to be provided to businesses in smaller and regional centres.

Mr WILTON—Is that the only role you envisage banks should play in terms of resolving the problems associated with bank closures?

Mr Simmons—I believe that banks probably do have a general community service obligation. In saying that, many of the banks have been in a large number of the smaller communities for many years and probably have, in a financial sense, reaped the rewards of that, particularly at a time when agriculture was much stronger in regional Australia than it is at the present time, and has been for a number of years. The mere fact that a banking licence is issued does mean, in my view, that the banks do have a broader obligation than, for example, a small business that might decide to move on. In my view, you just cannot with any credibility—and retain any semblance of credibility with the community—suddenly pack up and leave town without making decent alternative arrangements. I think that is a view that is echoed by many people who have made submissions to you in the past.

Mr WILTON—I have heard suggestions that banks ought be issued a licence to operate in the profitable areas of Newcastle, for example, conditional upon them also operating in a less profitable defined hinterland Hunter type area. What would the chamber think about that sort of notion?

Mr Simmons—The chamber would have a view that banks, like any other business, are out there to maximise their returns to shareholders. But, by the same token, in centres like Newcastle there are much more profitable centres of profit than there are, for example, in Sydney or Melbourne. In the same way that that is balanced out in regional centres like Newcastle, as it is in the capital cities, one could possibly take the next logical step that you have suggested and extend into smaller rural centres. Obviously, you have to draw a line somewhere. It is pleasing to see that Australia Post, for example, has been able to play a significant role in recent years in providing those sorts of alternatives in some of those rural centres. So I do not think as an organisation we would be hung up on the notion that we expect the big four banks to be in every small rural centre right throughout Australia, but if we as a nation are conscious of wanting to ensure that people do have basic banking services where they choose to work and live then there have to be some rules of the game that are accepted by the banks in the same way that governments expect certain types of behaviour from the community.

CHAIR—You would be rather heartened by the comments by the ANZ yesterday when they said that they believed that the bank does have a community service obligation.

Mr Simmons—I was heartened by that. I was disappointed some weeks ago when I heard a comment to the contrary by Mr Argus from the National Australia Bank. Nonetheless, I think most banks—and certainly the banks that I had some dealings with when I was in your position—do understand that a banking licence gives them special privileges within the community. One would have to say that they have a big marketing job to improve their overall image. The Treasurer's reference to this committee probably provides big opportunities for the banks to react to that reference in a very positive way.

I do not want to suggest what they should be doing, but I am conscious that when the Treasurer gives a reference to a parliamentary committee he does so because he is concerned about certain things. When he is concerned about alternative means of providing banking and like services in regional and remote Australia, that should send a very clear signal to the banks. As I said, I would be very surprised if they do not recognise the opportunity that provides them to re-image themselves in the eyes of regional Australia.

Mr ALBANESE—We have heard considerable evidence about credit unions moving into some small towns and establishing services. As you know, the Hunter has been the hardest hit in New South Wales in the number of bank closures. What has happened in places like Merriwa, Aberdeen and others—not so much in Newcastle city—which now do not have any facilities at all? What have businesses done? Do you have any anecdotal evidence of what happens in a place like Merriwa, for example, or anywhere else?

Mr Simmons—I do not have any specific evidence of what has happened in Merriwa other than the newspaper commentary that I referred to in my opening remarks. Clearly, if you live in Merriwa you are reasonably isolated from significant population centres. It is reasonable that, if you are resident in a centre like Merriwa that has its own local government area based on the town of Merriwa—there are a significant number of quite viable businesses in Merriwa—with banks deciding to move out, you would feel pretty aggrieved, as the population felt very aggrieved last year and sought to bring that sense of hurt to the notice of the community in the best way they thought fit through the media.

That is why I am saying that if the banks do not recognise the opportunity that this reference provides for them to do something—in other words, to get in first, if you like, before the committee recommends to banks perhaps what it might regard as an even harsher indication of what the community expects—then they are missing a golden opportunity. There is a good opportunity there at the present time. Because of actions by individual banks and the community view of banks generally over the last few years, they have done themselves and their industry a great deal of harm.

CHAIR—Thank you very much for that. I think there was a certain amount of experience showing through on how to approach a parliamentary committee.

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

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

Committee adjourned at 4.08 p.m.