HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON FINANCIAL INSTITUTIONS AND PUBLIC ADMINISTRATION

Reference: Regional banking services

HERBERTON

Tuesday, 28 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

HERBERTON

Tuesday, 28 July 1998

Present

Mr Hawker (Chair)

Mr Albanese

Mr Anthony

Mr Wilton

Committee met at 11.00 a.m.

Mr Hawker took the chair.

DAVIDSON, Mr Graeme Wayne, Manager, Financial Services Strategy, Business & Government Marketing, Telstra, 39/242 Exhibition Street, Melbourne, Victoria 3000

MERCER, Mr Martin, Group Manager, Strategy, Regulatory & External Affairs, Telstra, 39/242 Exhibition Street, Melbourne, Victoria 3000

CHAIR—I open this meeting of the House of Representatives Standing Committee on Financial Institutions and Public Administration for the inquiry into alternative means of providing banking and like services to regional and remote Australia to those already being delivered through the traditional bank branch network. This inquiry has obviously struck a deep chord in regional Australia. We are still regularly receiving submissions. We are also very heartened by the responses that we are starting to get. Yesterday, we saw two of the major banks make some fairly large announcements, which I think are, certainly in part, a response to the work that the committee has been doing.

We have heard very clearly that changes in the delivery of banking services are in many areas causing considerable hardship. We are focussing on pragmatic ways of finding solutions and strategies that will enable communities in regional areas to continue to have access to regional financial services. Clearly, technological change is one of the major drivers of what is happening with the change in delivery, but we need to ensure that these technological changes result in improved access to services and not become a reason for a diminished service. This morning's hearing will focus quite a lot on that point.

Obviously, access to infrastructure is vital if communities are to realise the potential for electronic banking. We will certainly be interested in exploring that particular issue today. Despite the complexity of some of the issues involved, we are convinced that a number of solutions are available, with many of them already being enacted. We have been somewhat heartened by the number of communities which have worked hard, often with the assistance of government and with programs such as CreditCare, to find solutions that will work for them. Part of the work of this inquiry will be to document those efforts.

We are particularly interested in the potential for cooperative arrangements between all sorts of organisations, public and private, hence our journey here today to find out more about the arrangements between the shire of Herberton, the Queensland Government Agents Program and the Electricity Credit Union.

To start with, we would like to hear from Telstra. I welcome Mr Martin Mercer and Mr Graeme Davidson. 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 that the giving of false or misleading evidence may be considered a contempt of the parliament. The committee has received a submission from you, numbered 118. Is there anything further that you would like to table?

Mr Mercer—No, we have nothing further to table.

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

Mr Mercer—No, we have reviewed our submission and there is nothing that we would like to add.

CHAIR—First of all, thank you again for coming here to Herberton. I think it is going to be a very valuable part of our hearings. You talked in your submission about ‘the minimum financial service standards considered essential for normal business and social activities’. Can you expand on that? What do you exactly mean by ‘minimum financial service standards’?

Mr Davidson—Do you mean by way of the services that would actually be delivered to consumers or the types of facilities?

CHAIR—As you outlined in your submission.

Mr Davidson—Very broadly, I expect that consumers in this area are interested in being able to at least talk to people face to face or via electronic means—to talk to people and go through an explanation of what it is that they want, obtain services, ask for help, whatever. They really need to be able to have a dialogue with somebody who has got some expertise in delivery of financial services. On the other side of it, I think there is a demonstrated demand for cash, as distinct from electronic money, credit cards or other plastic sources.

CHAIR—Are we talking about what might be delivered through the Telstra network here as well?

Mr Davidson—I think things that can be delivered through the Telstra network are things that will ultimately support smart cards; there isn’t anything that is happening with that at the moment. Other services that would be delivered over the Telstra network are really things on two levels: support of ATM machines, and EFTPOS services via the Internet that would be secure electronic transactions.

CHAIR—You brought up the question of smart cards, and perhaps we can move to that. Is Telstra doing any work on developing some sort of domestic fund transfer system via the telephone system?

Mr Davidson—Could you expand on that?

CHAIR—For example, talking about smart cards, obviously the banks are looking at trialling those. One of the ways that they could obviously be advantageous for regional and rural communities would be if you could actually transfer money into a smart card via your ordinary telephone.

Mr Davidson—We are exploring that, and there are two ways in which you might do that. One is via a telephone which has got an adaptor, a reader, that would be connected to the telephone, or alternatively the same type of reader might be connected to a computer which is dialled up by the telephone. That would enable you to access a stored value account or charge that card via EFTPOS via a credit card and actually load up the stored value card remotely.

CHAIR—I would like you to expand a bit more on how far you have got: any time frames you might be able to offer, the practicality, the costs—all of it.

Mr Davidson—Costs are really dependent on volume. I am told by people in our research labs and people in the computer industry that readers sub-$100 is something that is expected the moment there is any volume at all. We would expect that those costs will fall more than that, but certainly in the early days it would be sub-$100 for those. For the same type of thing connected to a telephone, it is a similar order of cost. Work is proceeding with that, but this is a chicken and egg thing. You have actually got to have an application where you can use these things and they have got to be more widely accepted than, say, in telephones. The reality is that for the smart card we use at the moment we are about to introduce a recharge facility, but the card which is used by the mass of people right now is a non-rechargeable card, a disposable card.

CHAIR—Just in practical terms, if, for example, Herberton wanted to trial this, could you set it up in the next six months so that individuals can accept their pension through a smart card and businesses here would then be able to deduct money from it? Could you give us a time frame on that?

Mr Mercer—Could we get back to you on that one? I can say that we are trialling at the moment in Adelaide a multi-vendor smart card which will allow you to use the card in more than just telephones—in newsagencies, vending machines and the like. That is not a rechargeable or reloadable card. The next generation of payphones will facilitate the reloading of reloadable cards. I do not think we had explored a functionality which would allow pensions and the like to be loaded directly onto smart cards.

CHAIR—If you can download from the telephone it is really no different, is it?

Mr Mercer—I would not have thought there would be any technological impediment to it. Can I take that question on notice and give you a response later?

CHAIR—Yes.

Mr Mercer—We do not know, and I do not think Graeme does either, the extent to which we have looked at options like that.

Mr ANTHONY—What are you trialling in Adelaide?

Mr Mercer—A multi-vendor smart card. The current smart card we have can only be used in telephones. The smart card we are trialling in Adelaide can be used in vending machines and newsagencies. It is the first step towards developing the true electronic purse or a substitute for cash. There is no reason, in a community like Herberton, when all the vendors in town are connected, why you could not eliminate cash, effectively.

CHAIR—It would be good to have an alternative. Have you been doing any work with any government agencies on this type of technology?

Mr Mercer—Not to my knowledge, no.

Mr ANTHONY—I have read your submission. Obviously we will talk about a lot of areas regarding technology and the transmission of banking data. I just want you, Mr Mercer, to tell me about Telstra's strategy on the role that you are going to play in the financial services sector. It is a bit blurry. You are seeking a seat on the Australian Payments System Council, which tells me that your organisation, like a lot of US telcos which are now into delivering financial services products, obviously has a vision of getting into the banking sector. You, more than anyone else, through technology, have the delivery systems. You mention it a bit in your submission, but then you go on to the different technologies. Can you enlighten the committee a bit about Telstra's thinking on providing financial services and how far down the track you want to go?

Mr Mercer—Telstra does not really want to become a financial service provider. We have an interest in stimulating the adoption of things like smart cards and the rapid uptake of electronic commerce because that means more data going over our networks. We are in the business of providing a network or an infrastructure which facilitates communications. Banking and other financial communications are an obvious source of extra revenue for Telstra. To the extent that we can—through developing smart cards, through lobbying for changes to the rules that govern electronic commerce—facilitate the rapid adoption of electronic commerce, that is what we are interested in doing.

We are not interested in becoming a provider of financial services. We have a Visa card, for example, but that is an ANZ product. All we lend to that is our brand name. We do not do any of the transaction processing. We do not offer the financial product as such. We do not manage the financial product. We do not have any long-term intention of becoming a financial service provider. We will provide mechanisms that facilitate financial transactions. That, in our view, takes more traffic over our network, which is our core business—transferring data.

Mr ANTHONY—In your submission, you say that Telstra offers other products which compete directly with traditional providers of financial services and providers of consumer services to regional areas. Smart cards have not really come into being yet. You have mentioned your Visa card. That has been around for a while. There must be other product areas.

Mr Mercer—We have a product called 'SureLink' which facilitates payments over the Internet. It redirects payments from the Internet via the EFTPOS system. It is consistent with the broader strategy I outlined. It gives people security when they are transacting over the Internet. It gives them greater confidence that their transaction is not going to be intercepted, that there is no risk to privacy and other issues. It is effectively a payment, or settlement, system. To that extent, it competes with EFTPOS, but it is not designed to be a substitute for EFTPOS.

Mr ANTHONY—So you reckon that you will never see Telstra applying for a banking licence?

Mr Mercer—I would not say 'never', but I think it is very unlikely in the short to medium term that you will see Telstra applying for a banking licence. We certainly have no plans to do so at the moment.

CHAIR—I go back to Mr Anthony's question about applying to be part of the payments system. What is the reason for that?

Mr Davidson—We have our stored value card at the moment. We expect, because of the value of business that you can do with that, that direct entry into the payment system is something that would be advantageous to us.

CHAIR—So you could then expand, if you so choose, to do more than just use it for telephone services?

Mr Davidson—Certainly. There are discussions going on with a number of players—that is, people who operate vending machines, self-service terminals of all different types. We are looking to expand the acceptance of that card as a means of providing a greater range of services to customers. From a slightly different angle, we are working on providing our customers with a card that identifies the variety of Telstra services that they use, and, indeed, which could be used to drive some intelligent network features. If that card is to have additional value, though, we expect that you need to provide other services on it, like a range of banking services, debit and credit facilities, and stored value.

CHAIR—This is something that the committee would be very interested in. Going back to my earlier questions—and you might want to take this on notice—if, say, we want to set up it as a project and we come back to Herberton as an example, how quickly could that be done? That is if you could take into account where we are really at with that. It is an alternative to traditional banking really, isn't it? If this were a viable option for a small community, we would be very interested in learning a lot more about it.

Mr Mercer—We undertake to give you a direct response on that.

CHAIR—We would like it to be as all embracing as you can make it.

Mr Mercer—Yes.

Mr ANTHONY—Obviously, you would not want to tell us things that are commercial-in-confidence. But in your submission you talk about direct and indirect access to banking systems—and 'direct' is fairly specific, I imagine—and a probable partnership with one or a range of other financial institutions over financial transaction services carried by Telstra. So obviously there is a plan within Telstra to go into banking a bit more seriously, rather than just being a provider for data transmission. I think it would be terrific if Telstra chose to do that.

Mr Mercer—I think you will find that it is more likely to be in a similar vein to what we currently do with our Visa card product, which is using our brand name as a way of delivering financial services provided by others to our customers in giving them a wider range of products, rather than just a telephone product.

CHAIR—But I think Mr Anthony's point is that there is a lot more to this. Once you start to get a stored value card, you are, in effect, assuming a banking type operation in many ways.

Mr Mercer—As for the stored value card that we have, as I said, as soon as we move into a multi-vendor type of environment, we certainly come within the ambit of the new APRA legislation. We will be holding a store of value, yes, and we will be settling transactions. It will be an electronic flow of cash, effectively. It is very much a transaction and payment sort of system. Potentially, as a product we can eventually substitute it for cash. I would imagine there is no reason in the longer term why you cannot have something like your pension or other direct credits to the card organised. It is not until the card is placed into a reader that that would be registered in the card. There would be technological issues but they are not insurmountable by any means. With our new pay phone, for example, you will be able to have it extended—

CHAIR—I am interested that you chose the words ‘longer term’. Why is it longer term?

Mr Mercer—Given that we are just trialling a multi-vendor card now, which is not reloadable, there are technological and deployment issues to be policed. There will be a range of software and other issues plus a range, I am sure, of regulatory and commercial issues to overcome before you could provide a card that had that range of functionality.

CHAIR—With all of the problems that you outline, if there was priority given, we would like to know—if you would take this on notice—the sort of time frame. If there is priority given, what is the time frame for overcoming all of the problems that you have outlined?

Mr ALBANESE—If I can take that a step further: in your submission, one of the things that you say is that government should basically provide incentives to trial new financial services and assess whether they are commercial or not. Could you elaborate on that? You say:

These incentives should be funded on budget to ensure transparency.

Mr Mercer—I understand that the point the submission is making there is that, where there is a view that inadequate financial services are being provided and if traditional financial service providers are not going to service that market because it is not a profitable market, there could be initiatives which are similar to the RTIF type scheme for telecommunications which would encourage the provision of financial services and infrastructure in those poorly serviced areas.

Mr ALBANESE—In that context, how would you respond to criticism which has been levelled—I have not seen a response from Telstra—about the varying costs of Internet connections for rural, regional and metro areas?

Mr Mercer—At the moment Telstra is rolling out a series of points of presence which give people local call access to the Internet. That depends upon an Internet service provider wanting to service that market. To the extent that there is no Internet service provider that wants to locate at that point of presence, at the moment some customers have to make a long distance call to the Internet service provider. There are a range of schemes which reduce the tariffing on some of those but, yes, at the moment there are some customers in rural areas who do not have untimed local call access to the Internet. But I suspect that they are people who often do not have ready access in any event to a bank or other financial service provider; they are people some distance outside a rural centre.

Mr ALBANESE—It has been reported that your own plans, the Big Pond business options, for 40 hours access for a rural customer costs $272, for a regional customer $205 and for a metro customer $85. They are substantial differentials. Extrapolated from that, people in rural and regional communities would be concerned that the new technologies will be very much for people in urban centres. The fact that you are trialling it in Adelaide is understandable but would reinforce that, I think.

Mr Mercer—Given that these are new products, we do not know what the tariffing is going to be. Given, however, that these cards are reloadable through standard payphones and there is a fixed charge on the payphone, I do not seen that there will be a significant difference in the costs associated with these products. Smart cards are a very different product from the Internet, and I do not think you can draw a parallel between Internet pricing and what sort of charge there is on a smart card.

Mr ALBANESE—Some of the banks we have spoken to have spoken about access to banking services through the Internet, so it is very relevant in terms of the scope of this inquiry.

Mr Mercer—Of course. If you look at people who want to access banking services through the Internet, those people who cannot get local call access are people who are some distance from an exchange and typically they going to be people who are some distance from a bank branch, a credit union branch or another service provider in any event. They have a choice in that sense: they can travel some distance to their bank branch or they can do the banking over the Internet. It will involve a cost, obviously. They have got a long distance telephone call over the Internet or they have got a 100-kilometre journey. Yes, there is a cost, and it is different from the untimed local access.

CHAIR—Either choice there is fairly expensive.

Mr Mercer—Yes, they are expensive.

Mr Davidson—I think the comparisons you are making at the moment are drawn from the cost of services which are provided by traditional telephone lines. One of the technologies which is emerging for access to the Internet, certainly in remote areas, is by wireless satellite. I do not have any accurate costing of that or even forecasts of where that will be, but we expect that will be something which will not only dramatically improve the standard of service but also ultimately be a more cost-effective alternative to the telephony based service.

CHAIR—Can you expand on that a little? You say you cannot forecast costs, but can you give us ballpark figures? As for the other question that raises, the security of connection, what is the comparison with an ordinary telephone line?

Mr Davidson—I really do not think there is an issue with that, because you have got to regard the Internet as a conversation that is going on, like the one in this room, and anybody can come along and listen to it. You expect that financial transactions, particularly the important transactions, will be encrypted. You must presume that all of those transactions take place in a space that somebody else can listen to them in, so it is really the quality of the encryption schemes which provides the level of security that anybody would believe is fundamental to banking services.

Mr ANTHONY—I come back to the point that I believe you raised about the Internet and the Big Pond system. That is obviously the way of the future for many rural communities, if you have got the access or the capacity. There is a pretty big price differential now between $272 for 40 hours in the bush or $85 if you are in metropolitan areas. One can understand the difference. I gather Telstra has got a rural plan in place. Can you explain to the committee what that rural plan means and how it is beneficial to rural customers?

Mr Davidson—I will go back one step to the comparison. The earlier example was Big Pond Business, which is a service that you might find commercial users operating. With a business service, you would expect the volume of transactions and the connect time to be longer than with a domestic service. I expect that the majority of people who you are talking about, the customers of financial institutions in the area, are not likely to be customers of Big Pond Business; it is more likely to be Big Pond Home or any other service that would be offered to domestic consumers.

Mr ANTHONY—If I am a farmer and I am doing my banking through the Internet, I have to go through Big Pond, don't I? That is one server.

Mr Davidson—Big Pond is an ISP. It is our product as an ISP. There are more than 500 ISPs operating.

Mr ANTHONY—You would be the biggest, would you not?

Mr Davidson—No, OzEmail is.

Mr ANTHONY—Would their pricing structure be similar?

Mr Davidson—From the tables that I have seen, I understand that our pricing structure and theirs are comparable.

Mr ANTHONY—This is the way of the future. Many farm organisations will be doing their banking this way. Obviously, the price in a rural area is substantially more than if you are in an urban area. How do you see prices going in the future? Are the gaps going to narrow, or is it always going to be a three to one difference?

Mr Mercer—As the level of demand increases in these areas, you are talking about—

Mr ANTHONY—It would only be marginal, wouldn't it?

Mr Mercer—It depends. The ABS statistics on the existing level of Internet penetration show that about 10 to 15 per cent of homes in metro areas have a modem; in rural areas it is up to about 20 per cent. As that level of penetration increases, you will find that more and more of the points of presence, which I mentioned before, are going to be located in rural exchanges which give people untimed local call access to the Internet. Basically, a point of presence is a point on our Internet backbone network where you can dial into and where an ISP, Internet service provider, will establish an operation. There are a couple of hundred or more of those already in rural areas. They are rolling out quite rapidly now. As there is greater and greater deployment of points of presence, there will be greater and greater access to the Internet on a local call basis.

Mr ANTHONY—So the cost is just getting to a point of presence? Is that correct?

Mr Mercer—Yes.

Mr ANTHONY—And then it is a standard rate?

Mr Mercer—Yes, to get onto the Internet.

Mr ANTHONY—So, if I am here, my point of presence might be Cairns?

Mr Mercer—I imagine the closest point of presence to Herberton would be Cairns, but I do not know that answer to that.

Mr ANTHONY—That is all right. It is just an example. The cost that I incur is from here to Cairns, and then I am on a local call rate. Is that correct?

Mr Mercer—Then you are on a standard Internet tariff rate, but, if you had a point of presence within a local call distance of Herberton, you would have access to the Internet on the same basis as everybody else.

Mr ANTHONY—There was some talk in the papers not so long ago about the USO on voice transmission perhaps being extended to data transmission on the Internet. What is your view on that?

Mr Davidson—I am not sure that the company has a view on that. If the USO is extended, fine. Our responsibility is to deliver on that.

Mr Mercer—The USO already encompasses Internet access in the sense that the USO at the moment is for standard telephone services and payphones. At the moment there are some people who cannot use the standard telephone service to access the Internet but the vast majority of telephone customers can access the Internet over the standard telephone service. So, in that sense, the standard telephone USO already encompasses Internet access. But I think you are probably talking about a fast—

Mr ANTHONY—When you get to a more substantial data transmission that is where you would have limited banking services. I suppose that would be the case, wouldn't it?

Mr Mercer—Yes. By the end of this year we will have a satellite product on the market—we made this announcement in May this year—which will give ubiquitous coverage so that anyone in Australia will be able to get access to a satellite service and the tariffing will be uniform across the country because no-one is any further away from the satellite than anybody else, no matter where they live. It will give them high-speed Internet access to every home in the country, should they want it.

CHAIR—There are two questions: when and how fast?

Mr Mercer—December 1998—that is when we said we would have products on the market and I have heard nothing to suggest we are not working to that schedule. I believe we are trialling products at the moment with the National Farmers Federation. By the end of this year that will be available and that is obviously an alternative to ISDN, which 96.3 per cent of the population actually has access to at the moment. There is a basic Internet access product which is your normal telephone service. So 96.3 per cent of people have that at the moment if they want to access ISDN, and 100 per cent will have it when they go through the satellite by the end of the year.

CHAIR—So, as for speed and relative cost?

Mr Mercer—We do not have a tariff structure yet for the satellite because we are in trial stages at the moment. It will be charged on a different basis. We anticipate that it will be charged on a volume of data basis. It is hard to make a comparison but you would not imagine it being that much different from ISDN.

CHAIR—How fast?

Mr Mercer—It depends. You will be able to purchase different data speeds, depending on how much you are prepared to pay. It will be a minimum of 64 kilobits a second in data speed, which will make the average download speed for your web page considerably faster than you currently enjoy over the standard telephone service.

Mr WILTON—If Telstra is obviously prepared to apply USOs to standard urban call rates for Internet use in urban areas, can you give us an overview or summarise the major impediments to applying the same USO principle and the same urban rate to rural areas—areas like Herberton. What are the major impediments to Telstra doing that?

Mr Mercer—Can I clarify the question? At the moment under the USO we have to make a basic voice telephony product available and we cannot charge more than 25c for a local call. If you make a long distance call, you pay long distance rates obviously over the standard telephone service. I think you are asking what is preventing us from making untimed local call access available to the Internet for everybody no matter where they live.

Mr WILTON—Obviously, on one count, you would monitor what the Internet was being used for. But, ideally, if it were being used for financial transactions, Telstra, I am sure, would be amenable to offering an urban rate for that purpose. What are the major physical impediments—in this instance, it may be a question which I should ask of a technician rather than a financier—to Telstra applying urban rates to rural areas specifically for Internet use?

Mr Mercer—For financial transactions?

Mr WILTON—That would be ideal but, clearly, you could not delineate between what was financial and what was not financial in terms of Internet use. I will ask my question in this way: is it possible for Telstra to determine what a line is being used for—whether it is Internet or not Internet? I have an Internet connection at home and now I have two separate plugs in the same socket.

Mr Mercer—My understanding is that, once a circuit is open, we cannot differentiate between voice and data traffic over the telephone network at the moment.

Mr WILTON—So there would be no way that Telstra could determine what lines were being used for Internet purposes in the bush and therefore, perhaps, charge a rate that was more aligned to urban rates?

Mr Mercer—No. It could not be done in that way but you might be able to do it through a 'one in a hundred' type of solution. There would be a considerable cost involved in network augmentation and the like because of the extra traffic that will go with the network, plus it would obviously be a very large cost in terms of the impact on the USO levy because those calls would become loss making. The cost of providing the USO would go up quite considerably.

Mr WILTON—Sure. Can I turn briefly to the issue of regulation. In your submission, you submit that Telstra believes that there is a need to examine the regulatory framework for electronic commerce to facilitate the growth of a competitive electronic commerce industry. Do you think that the current regulatory regime inhibits the development of electronic financial services? What would the impact of Telstra's regulatory proposal be on that?

Mr Mercer—There are several things which hold back the rapid uptake of online banking, for example, on the Internet. In e-commerce generally there is a concern about privacy, there is a concern about security and there are concerns about whether goods purchased over the Internet are subject to the usual guarantees and the like.

There is also a high level of ambiguity in the current legislation dealing with electronic signatures, email signatures and the like. There is a range of things which could be done which would make it clearer what people's rights and obligations were when transacting business over the Internet and which would also give people a level of security or comfort around the privacy and security of those transactions. That would probably lead to a faster uptake of electronic commerce. But the big issue which cannot be addressed through those things is familiarity with the technology.

Mr WILTON—Would the risk to privacy be the singularly major risk that users of electronic financial services are exposed to while the users of other financial services are not?

Mr Mercer—I could not comment on that, to be honest.

Mr Davidson—I think the answer is no. I think security is the issue.

Mr WILTON—Right.

CHAIR—How does electronic commerce security, even with encryption and all the other things, rate in comparison with what existed prior to the availability of these alternatives? In other words, I mean the physical security that we have traditionally known versus the security of e-commerce Internet banking and all that sort of stuff. Have you got some sort of comparisons?

Mr Davidson—The majority of the transactions that take place over the Internet are on credit cards. People are being made to be very wary about putting credit card numbers out on the Internet. They say it is analogous to someone going to the MCG at grand final time and having their number broadcast in the middle of the crowd. The reality is that you could write down all of the numbers, go away and start undertaking a lot of transactions and there could be massive fraud there.

The same level of fraud could be undertaken, though, by people who capture programs or, alternatively, make up numbers and order goods to be delivered, and they are using something which is fraudulent anyway. In Australia the bottom line determinant as to whether a transaction has been authorised or not—on credit cards at least—is signature verification. It might cause you a lot of pain if you do have fraudulent transactions taking place.

But the banks are the backstop to all of this sort of thing. They push the responsibility back to the merchants and the merchants are the ones who have to verify that the person undertaking the transaction is, indeed, the person who owns the card and that it is a legal transaction. I think that the level of security and the level of privacy/confidentiality on the Internet is no worse than that for the transactions that take place in a physical sense, but it is about confidence at the moment.

CHAIR—Just going back to your point about broadcasting a number at the grand final at the MCG, surely that is hugely less secure than, for example, someone presenting a cheque.

Mr Davidson—The cheque has got a signature on it, which is the ultimate means of authentication of the cheque.

CHAIR—So what you are really saying is that the security is dramatically less.

Mr Mercer—I do not think it is much less than you currently experience in ordering goods over the telephone using your credit card, for example. I suspect it is an issue more about perception than reality.

CHAIR—To take Mr Wilton's point, you are talking about the need for developing regulations for electronic commerce services. What involvement has Telstra had in actually trying to assist there?

Mr Davidson—I believe we have made submissions to the Attorney-General's Department, which has put out a discussion paper in relation to reform of the law—

Mr ANTHONY—There has been an inquiry by JCPA on what Telstra did.

Mr Mercer—I have only been with Telstra for four months and that happened before I joined, but I have seen our input to that committee.

Mr ANTHONY—Mr Wilton was asking about the impediments to putting in services, and one of the questions was on technology. When you are considering putting in a service, let us say a point of access or further capital upgrades, what is the benchmark within Telstra for the internal rate of return you expect from capital outlay to generate X investment? What is the rate you are looking at: is it 10 per cent, 12 per cent? Is there a standard rate when you are putting in equipment?

Mr Mercer—I think it depends. There are some situations where, because it is part of the USO and we have to provide a minimum level of service, we would do that irrespective of the rate of return we are going to get because it is a minimum level service we are obliged to provide. Where we have a commercial product—

Mr ANTHONY—On the point of presence, when does it get to a critical mass when you can put it in? What sort of return do you have to get to justify it?

Mr Mercer—I think it varies, but typically you would look at your weighted average cost to capital. I am not sure, to be honest, what internal benchmark Telstra does use.

Mr ANTHONY—One of the problems we had with the banks is that they shut down in a lot of regional areas, and for many of those branches it was not that they were losing money, it was just that whatever formula they were using did not justify the capital outlay for the return they were getting. So we were trying to work out what services could be left behind or re-provided. You are the major IT deliverer. Even if a credit union or something else sets up in town, they have got to have the systems to hook up to, and that is where you guys come into play, and this is your competitor. That is the point I am trying to get at. We can put in all the regulatory framework to encourage non-financial institutions or even the banks to stay in town, but if there is not the IT connection it is a bit tricky.

Mr Davidson—There is actually a significant difference between the network technology requirement that even a regular Internet user might use and regard as adequate compared with what a bank or other financial institution might use. The reality is that for a lot of the banking systems that are in place at the moment, the demands on information transfer are not particularly high. You can set up client server arrangements that store a lot of the display information at the remote end, so all you are doing is transmitting relatively small amounts of data down the line, and so the line rates can be very slow. They can be less than 10 kilobits. More typically, they might be even less than five. For somebody who uses an Internet connection, if they had a five kilobit rate they would tire of it very quickly.

It is a different arrangement now. The reality is that those services are provided to financial institutions, and the types of services that they buy are invariably the leased line services. Those leased line services have got fixed costs that vary, depending on, again, whether they are in metro areas or out in the country. They do differ. That is one type of technology. It is not mandatory that anybody build systems on that; it is just the type of system that the majority of banks have opted to use for their technical infrastructure.

Mr ANTHONY—If you are setting up a point of presence, what is the cut-off point to get a return?

Mr Mercer—The answer to that is: I do not know what rate Telstra uses, but, as a general principle, when you are looking at a commercial service, all private entities will make a decision based on a rate of return calculation.

Mr ANTHONY—Do you have any idea what that would be for Telstra? Ten or 12 per cent?

Mr Mercer—It would be more than 10 per cent.

CHAIR—I come back to another part of your submission. You talked about the government's role and bids for trials of satellite based financial services. What other services, that we have not already discussed, might that include?

Mr Mercer—We are looking at two broad products at the moment for the satellite service. There is a hybrid product, which will generally be suitable for residential users. You dial up your ISP over your standard telephone service and you get the return transmission via the satellite. That is ideal for residential customers because the connection to the ISP involves a very small amount of data transfer. It is the data coming back from the ISP that is often a significant data transfer element. They will get a much quicker return over the satellite service. That will deal with the perceived problem of slow download times on the Internet. The other service will be for people who are large producers of data and who want to send and receive large volumes of data, typically businesses and government departments. There will be a bi-directional service, both to and from the satellite. They will be able to send and receive large volumes of data fairly quickly. The bi-directional service will support fax as well as large volumes of data.

CHAIR—Specifically, is there anything relating to financial service provision?

Mr Mercer—You can run a number of applications across that functionality. When transferring large amounts of data, it is quite conceivable that banks and other financial service providers would use that network if an alternative did not exist where they were located. They would choose that based on their data transfer requirements. Some of them might already be using ISDN and be quite satisfied. Others may be using the standard telephone service. Satellite is a transmission medium or a link over which people can run applications. People make a decision based on—

CHAIR—If this opened up new opportunities because it is handling large amounts of information, does this open up the potential for something else that has not been feasible to date?

Mr Mercer—For some areas, quite definitely, especially for quite remote communities which only have access to the standard telephone service. It will give them a range of alternatives that they do not currently enjoy. From a financial services point of view, I do not think it would give existing metro customers any alternatives at all, but it could well open up a range of new opportunities for rural and very remote customers.

CHAIR—Mr Mercer and Mr Davidson, that has been very helpful for the committee. Thank you for coming to Herberton to appear before the committee. We certainly would appreciate some follow up to those earlier questions. The more information that you can give on that, which will expand the picture for us, the better.

Mr Mercer—We will give you something very soon.

CHAIR—Thank you.

[11.56 a.m.]

PORTESS, Mrs Marghret Anne, Mayor, Herberton Shire Council, PO Box 41, Herberton, Queensland 4872

CHAIR—I welcome Councillor Portess, the Mayor of Herberton Shire, to today's public hearing. I remind you that the evidence you give to the committee is considered to be part of the proceedings of the parliament and, accordingly, the giving of false or misleading evidence may be considered a contempt of the parliament. We have not received a submission from you, but would you like to make a statement before we proceed to questions?

Mrs Portess—I guess you would like to know how it actually commenced in Herberton. This shire has had two banks withdraw. The first was from Ravenshoe, being the Commonwealth Bank, and the second was the ANZ. In Ravenshoe we had an alternative bank, so I could not see a real need to beat one's chest and get too upset over that, but in Herberton the removal of the bank left us without any financial institution or its services. We were told, out of courtesy direct to council, by the bank. I arrived and the CEO and the accountant were looking terribly sombre, and I thought that somebody must have died, and they said that the ANZ Bank premises were closing and the bank was removing its services. It gave us a date of the Friday of the first week of December.

CHAIR—How much notice did the bank give you?

Mrs Portess—Six weeks.

Mr ANTHONY—How long ago?

Mrs Portess—It was the first week of December 1996. It gave six weeks notice and said it was very disappointing, and my response was, 'Stuff the banks, we will go to the CreditCare movement and look for an alternative that will produce a satisfactory outcome for the townspeople.' I felt very strongly about it. I really do not believe in writing letters of complaint, so we did not even do that since it was going to be of no advantage to us. Council, unfortunately, in my absence, did send a little pleading note, but why waste time when there are viable alternatives to pursue? So we did that. That was on the Thursday, I think, and Tom Watson from CreditCare came up on the Monday or Tuesday of the next week. So we wasted no time whatsoever in pursuing an alternative that has proved itself with the provision of services to the town.

The credit union opened on 2 December, four days prior to the ANZ closing. There were a couple of difficulties with people transferring, one being the costs associated with transferring a mortgage or a business loan from a bank to a credit union. I do not know what the solution there is, but I am wondering whether, as part of your recommendations, you could look at a means of making it more affordable or achievable for people to have those costs reduced in being able to take advantage of a new system if it is put into a rural town.

One of the costs is stamp duty. If you transfer to a credit union, or a bank I believe, it is compulsory under the legislation to have your property valued, so there is a cost associated with that. I am pretty certain stamp duty is compulsory also. Perhaps that could be reviewed to make it more palatable for people to transfer. When we did transfer, our worry was that people would not follow up the rhetoric with action but they did.

I think what is most disappointing with banks, and what was the reason for the closure, is that a bank's philosophy is loyalty to its shareholders and increasing the profit margin. They are really quite obsessed with growth rather than maintaining an existing good profit. The bank here did have a damned good profit margin. I banked there and I knew the bank manager personally. He had lost his job, so he was quite comfortable in letting me know that there was an excellent profit margin. He said that with council's resources and the boarding school on the hill, plus the domestic users and the businesses, there was a good profit margin. I am really quite contemptuous of banks and their fixation on growth rather than the maintenance of a profit margin which can be compatible with service provision.

Credit unions, as you are well aware, have as shareholders people who are their customers, and their philosophy is very much based on the provision of a service rather than increasing the profit margins for shareholders who have no interest whatsoever in services in rural areas. Those shareholders could not give a damn, nor the banks that are driven by that need. That is the introduction as to how it happened. It happened very quickly, and it has been successful.

CHAIR—Thank you very much for that and for your frank comments. I start with the point you raised about the cost of transfer. That is, of course, a state charge, but I know that, for example, in Victoria there has been a change. Where a farm is transferred from one generation to the next, there is a waiver on stamp duty charges. So I guess it would not be impossible for state governments to be asked to consider that. Was there any other cost associated with transferring of accounts from the bank to the credit union?

Mrs Portess—I did not have any myself. I did inquire at the time, but I really think you should asked CreditCare and Clive Skarott from the Electricity Credit Union what the impediments are for people to transfer. They are expert; I am not. Where there were costs associated, there was a real willingness by people to take advantage of an immediate action which they saw as a solution. As has been reflected in recent votes, there is a real disenchantment in regional areas on the removal of services and the perceived impact on people. Here was an opportunity for people to take action, except for those who had high costs associated with it.

CHAIR—You talked about the bank making good profits. Do you want to expand on that statement at all?

Mrs Portess—I did not want to apply pressure to the bank manager to find out what their profit margin was. He did tell me in confidence, but I am sure he would not mind, that it was an excellent profit margin but the bank's philosophy was on growth of profit, not keeping it at 10 per cent or whatever. Unfortunately, in the corporate world we do have this emphasis on growth and that you are a failure if you are just maintaining what is already a good level. When banks and other institutions have the ability or the need to provide a service, I really think it is essential that that mentality change, but it is not going to with banks because their structure is different with shareholders' involvement.

CHAIR—I will lead with my chin now. Do you want to comment on the recent announcements by the banks?

Mrs Portess—What absolute bullshit! That is pure rhetoric. Honest to goodness, for government to come along, including a very well-meaning committee such as this, to say, 'Okay, banks, it is up to you'—banks are not interested in spending their money on the provision of a service. It is really up to government to help make that happen. Government has a responsibility for the provision of service. For the banks to come out, as Bob Joss from Westpac did this morning, and say, 'Yes, we have social obligations,' that is pure rhetoric and has no substance in it. He is just trying to make it look good. According to the NFF report that was published in February last year, there were statements made by banks that varied from 15 to 30 per cent participation from rural areas. So I guess where it is expedient for someone to look good and try to maintain that rural support it is handy to make a statement, particularly when people like you are forcing them into it. But there is no substance in it and it is not the way to go.

Mr ALBANESE—I am interested in just about everything you said, but one of the things I agree with is that when banks move from a town like Herberton one of the things they aim to do—and it is why they think they can get out—is to maintain the rich customer base, the elite customer base, through things like personal banking services; they will try to hang on to their most profitable customers. Of course, that is one of the reasons they give very little notice as well. To what extent did that happen here when the ANZ Bank moved out? What was their response to your action in bringing in CreditCare?

Mrs Portess—This was an interesting situation because Herberton really is a dormitory suburb of Atherton, which is only 15 minutes away, and they have a bank there. So, to the best of my knowledge, they did not actually chase up customers—

Mr ALBANESE—The ANZ Bank have premises in Atherton as well?

Mrs Portess—Yes, in Atherton, which is 15 minutes away. So they felt they had an alternative that was viable, particularly as so many people shop there anyway. There are far greater services in Atherton. Due to this growing resentment, which has been illustrated very much in the One Nation vote, and unfortunately we had the highest percentage in the state—there is this growing animosity to a feeling of being treated with contempt, and many people felt they were—they wanted something here because this is their town and they live here. They did not want someone saying, 'We want your business but we are going to have your business away, we want to thank you, and it will be provided down here.' So, no, they did not chase up business. They said, 'We can give it to you 15 minutes away.'

Mr ALBANESE—Did they transfer accounts? Did they send people letters saying—

Mrs Portess—My husband and I banked there. So, yes, we all received notification officially.

Mr ALBANESE—Saying that your funds would be transferred to Atherton?

Mrs Portess—Yes, and that automatically occurred, unless you took steps otherwise.

Mr ALBANESE—To stop it?

Mrs Portess—Yes. I just went down the hill and filled out the paperwork and transferred it up here when the credit union got going.

Mr ANTHONY—Did the shire council bank with the ANZ?

Mrs Portess—Unfortunately, we have not been able to transfer to the credit union. Actually, we asked for tenders, so they have to compete—which is fair enough—but there have been constraints with the credit union, and I am sure Tom and Clive will inform you in more detail about their ability to provide the full banking service that we require. It really gets up my nose, but you have made legislative changes recently which will alter that. We are still with the ANZ, but as soon as the credit union have the range of services we require we will put it on the open market and I am sure they will get it.

Mr ANTHONY—What about your other big customer here, the school? Do you know where they bank now?

Mrs Portess—I do not know; I did not ask. They will be able to tell you.

Mr ALBANESE—In trying to get a flavour for what is essentially a political action, at the time of the ANZ Bank closing were there public meetings? Exactly how did it come about?

Mrs Portess—Because of my attitude, 'Look, forget the banks, we're not interested, let's go in for some action'—I have a philosophy that you do not talk but actually do something, and we get results too by doing just that; if you are informed and can justify your actions you get decisions made—the only public meetings held were arranged by the credit union movement to let people know what they had to offer and to provide the confidence so that people would recognise that here was a safe alternative.

Mr ALBANESE—Did the whole town turn out?

Mrs Portess—We had about 70, as I recall it. I forgot to mention one point. When my very depressed-looking CEO and accountant told me this news and I said, 'Stuff the banks, and don't you dare put one letter on paper about a complaint; we're going to get right in, ring CreditCare,' they went like that—the body language was really funny—and got a terribly polite look on their faces and thought, 'We'll just placate her; let's just play this cool.' The body language was such because they themselves did not have the familiarity with the credit union movement. So, once they held the public meeting and Tom, as I say, came to see our staff and the information was out, people were then confident that here was a safe option to investigate and perhaps participate in.

Mr ANTHONY—How big is the town?

Mrs Portess—The township is about 1,000 and, with the surrounding area, it is about 1,500.

Mr ANTHONY—How long had the bank been here for?

Mrs Portess—Oh, gosh! It had been here many years. You will have to ask one of the others. I have forgotten that detail. I think it was one of the first ANZ banks to be established in a rural area. Herberton shire is one of the oldest shires in the whole of Queensland. So there has been some historical participation.

Mr WILTON—From an anecdotal perspective, Mayor, have you noticed any increase in the uptake of new technology—in particular, Internet usage, Internet banking—since the bank closed? In round, estimated figures, what is the uptake of new technology in the Herberton environment?

Mrs Portess—Because it has been expensive, the uptake has been more limited. I did not hear Telstra, unfortunately, but I did gain the impression that the costs are much cheaper in urban areas. When you have significant cost factors, the uptake is not as good. I was wondering if there may be some kind of solution to be considered by the committee in relation to this.

I am a great believer in state, federal and local government, and communities looking at their resources and how best to integrate them, pool them, to achieve maximum benefits. Gone are the days when we could act in isolation. I believe that there are opportunities for technological advances to be economically and effectively taken advantage of by government, corporate and domestic users as a pool. I am looking at the technology for enabling that to happen. For example, in regard to health in rural areas, you can take an ultrasound series of shots or x-rays and they can be transmitted, using the same technology, back to your radiologist in an urban area for interpretation. They can then send the information back. The police department can take fingerprints and use very similar technology to send them back to a central location for identification. Video conferencing is being looked at. I believe they actually have points of access and telephone lines, but they still need some technology to enable them to access a service. A whole range of government services and corporate needs could be blended in rural areas to achieve better outcomes.

I recognise that there are extra costs the further rural towns are from metropolitan areas, but I think that is where government does play a role in recognising that a contribution—they call it a subsidy—could be considered to be an investment for rural areas and a means of encouraging economic and social activity to increase rather than continuing the downward trend we are experiencing. I will give you an example. This shire was economically buoyant 10 years ago. We lost the timber industry and the tin mining industry. We had a drought for six years. In the last ABS statistics, we had the proud distinction of having the lowest per capita income north of Mackay, including the area right out to Mount Isa and the Northern Territory border—going from an economically viable population to a very depressed one. We need the technology as an investment, as a means to enable us to help us help ourselves.

I do not regard that as a handout to those people. We have to have all these things in this age to actually grow. You need us. We are 30 per cent of the Australian population. You do not want all of us back in the cities. I am from Sydney. I am from an area where we had the lot. I have been here 22 years, and I can see the difference.

CHAIR—You make a very valid point. To follow up on that, have you been able to access any of the funding for things like the regional telecommunications infrastructure fund to upgrade some of the services?

Mrs Portess—We have participated. We do not act in isolation. Our shire does have a philosophy which not everybody is happy with. We integrate with other shires and we have a tableland Networking the Nation $800,000 grant. They were not looking at installation of equipment; they were really looking at increasing people's awareness and subsidising points of contact for domestic users. We have accessed that. I have spoken to them, because of this inquiry, and they are very keen to receive your report and follow through to determine the present use of the bandwidth that you need for the Internet and the provision of banking services, and then looking at the potential use in an integrated fashion. The staff who are involved are looking at pursuing this. Perhaps it will need another submission to the particular program.

Mr ANTHONY—When the bank shut down and you said, 'Right, let's get on to the credit union and get them in here,' did you ever consider Aussie Post? What sort of arrangement do they have here in town?

Mrs Portess—To the best of my knowledge, Aussie Post is an incredibly limited service, and I was really looking at the best way in the long term, because credit unions had legal and technological constraints, of achieving a full service rather than the very limited service that I believe Aussie Post provides. I notice that the banks are making these token statements about providing services in rural areas, but I would bet my bottom dollar that they are going to go to the areas where they are going to get the best return, because they are driven by profits and the growth in that. The services they provide will be very limited, I suspect, whereas I feel very strongly about this one because, first, it has the willingness; secondly, it really does have a philosophy with the provision of services; and, thirdly, if those constraints can be removed or reduced, they will get in and do it.

Mr ANTHONY—Did you negotiate much with the Queensland government?

Mrs Portess—I was going to let Tom Watson cover that bit but, having got onto CreditCare, Tom came up the next week. The difficulty for council was that they do need free rent and we do not have the premises in Herberton. In Ravenshoe we could probably assist, but not here. Tom wandered uptown and found the local government agency. We were very fortunate, because Mark was very supportive and he has the same principle of working together, coordination and integration. He recommended it to Brisbane and I rang the director-general of the Department of Local Government. He was very positive, 'Yes, let's help make this happen,' and that was it. Tom obviously contacted government; Di McCauley, the minister, came up. There was a willingness and a means of doing it as well. If you have got the willingness and the means, it is much easier to make it happen. Unfortunately, the willingness is often very hard to get because people love working in isolation from others.

Mr ALBANESE—In terms of how this change worked in with the ANZ Bank in Atherton, which is still there, was there any flow-on impact in terms of bad publicity about the bank's actions here?

Mrs Portess—Yes, we made sure of that.

Mr ALBANESE—Was there an attempt to pinch people, if you like, who might have lived in Atherton, to get them to bank with the credit union as well?

Mrs Portess—No, that was not necessary. The publicity we pursued was through the papers and TV. I was quite scathing about the banks and said, 'Let's support someone who wants to look after us.' It is interesting that there were people who were aware of the credit union, from Malanda and elsewhere, who said, ‘Wonderful. We will move into Herberton.’ You would really have to ask the credit union people about that trend.

Mr ANTHONY—Is that the story on the tablelands, that the banks are shutting down? Can you give us some other examples?

Mrs Portess—We were the ones who were affected, because we lost two. I think Dimbulah lost a bank.

Mr ANTHONY—Have there been closures in Atherton?

Mrs Portess—No. It is a fairly large town. Could I mention that in regional areas people are social animals, as in metropolitan areas, and we really like to mix with people. I am sure you have been told many times that people like to see a face; they do not feel an emotional affinity with a piece of plastic or a telephone cord. They do feel comfortable with a face they know and they can speak to and that will make phone calls to organise a loan. An example of that was that Singapore Airlines or Air Nippon, I cannot remember, was one of the first airlines to introduce a telephone where you press button 1, press button 2 et cetera; this dreadful service that many people are putting in. Their business dropped 30 per cent as a result of the implementation of that lack of interpersonal contact, and once they removed that their business went right back up. That is a corporate example of how the loss of interpersonal contact reduced business.

Mr WILTON—To what extent has the fact that Ravenshoe has remained seemingly buoyant and active—

Mrs Portess—What do you mean, buoyant and active?

Mr WILTON—We have had evidence which suggests that Ravenshoe has not deteriorated despite having lost its logging industry in recent years—

Mrs Portess—I am not sure where your information was from, but it is totally incorrect. As I said, according to ABS statistics, we have the lowest per capita income and much of that is derived from Social Security. In one of the quarters last year we had the highest unemployment rate, but they change. I often say our cash flow is dependent upon Social Security and the growth of a prohibited agricultural crop. We rely on both of those for cash flow.

Mr ANTHONY—There are a lot of similarities.

Mrs Portess—Yes, we are not lonely; there are many rural areas that are similar. There is cash flow from Social Security so, if you drive into town, there will be many vehicles there, but they are not really good vehicles and the quality of merchandise in, say, the draper shop has dropped from what it was 10 years ago because of people’s incapacity to buy quality.

Mr WILTON—Does that mean that people now go to banks elsewhere and buy goods and services there that they would otherwise have bought here?

Mrs Portess—People go to Atherton because there is a Woolworths and people are driven by the effect of their expenditure on their hip pocket. So, yes, people still go to Atherton from both Herberton and Ravenshoe because groceries, which is a big percentage consumer of their funds, are much cheaper down there. Ravenshoe does have cash flow. But sure, if you have a critical mass, you have cheaper prices with groceries. If they go down there, they use other services.

But this is the example where there is a banking facility. The public were willing to transfer when it did not cost them too much to do so. When you lose your services, you lose everything else too. You really do.

CHAIR—Is there anything else you wanted to add?

Mrs Portess—I really want to emphasise—and I do not know how the committee can do it—the need to integrate all levels of government in enabling things to happen in rural areas. I have noticed with concern that we have a coalition in the federal government and we did have with the state, yet they seem to be wrangling the whole time. You are not going to get coordination and cooperation when you have like minds fighting all the time. So if somehow there was more cooperation, no matter what the colour of politics, to ensure that regional needs are met rather than being decreased, I think we would all be better off.

I will give another example: roads. Two of you are from the coalition and you have reduced funds for the highway network by $620 million which has a big impact on rural and regional Australia. We see right across the board a lack of recognition of rural and regional Australia and we will not be able to contribute to our full capacity unless we have that infrastructure support, which includes the technology that can help make banking services happen—the Department of Natural Resource, the Department of Primary Industries, health, police, education, et cetera.

CHAIR—Thank you very much. I will comment on the formal point to say that it does seem to be more accentuated in this state than others.

Mrs Portess—I think that is because we are the most decentralised state in Australia. So I see issues differently than I may see them in New South Wales.

CHAIR—Thank you very much again for that and thank you very much for the welcome here.

Proceedings suspended from 12.24 p.m. to 1.05 p.m.

ARBER, Mr David Anthony, Divisional Manager, CountryNet, Office of Rural Communities, Queensland Department of Communication, Information, Local Government and Planning, 111 George Street, Brisbane, Queensland 4000

FORDHAM, Mr Michael Nils, Regional Manager, Queensland Department of the Premier and Cabinet, P.O. Box 4626, Cairns, Queensland 4870

POLLARD, Mr Phillip Edward, Chairman, Electricity Credit Union, Sheridan Street, Cairns, Queensland 4870

SKAROTT, Mr Clive Henry, General Manager, Electricity Credit Union Ltd, P.O. Box 6125, Cairns, Queensland 4870

WATSON, Mr Thomas Cunningham, Field Officer, CreditCare, 51 Druitt Street, Sydney, New South Wales

CHAIR—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, accordingly, the giving of false or misleading evidence may be considered a contempt of the parliament.

The committee has received submissions from the Queensland government, numbered five and 93, and from the Credit Union Services Corporation, numbered 51. Is there anything you would like to table to add to those?

Mr Watson—No.

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

Mr Pollard—I would like to give an overview of our credit union because I believe we have a unique structure that may reflect possible opportunities. Our credit union was established back in 1973 out of an employee structure that was actually a self-managed health fund. It was an industry based credit union established with the Cairns Regional Electricity Board. As a result of its structure within the industry, it gradually expanded. From Cairns it spread out into Torres Strait, up to Thursday Island, and set up liaison service areas. It then moved into Townsville, Mackay, Maryborough and gradually throughout the state. Before it went into the Brisbane area it was servicing the whole of the electricity industry in the rural area, which was as far south and as far west as you can go.

In all the depots we had service arrangements and most of them were operating on trust. We set cash floats and the whole operation became an infrastructure within the electricity industry. All the employees had access to cash throughout the state. That system gradually developed and matured, and we have now been operating for 25 years, with our headquarters based in Cairns, and we service the whole of the state. We amalgamated with another credit union, which was in the generation area in Brisbane—the Power People Credit Union—and from that amalgamation we provide services in all the generating areas as well.

With the rationalisation of the electricity industry, we have had to change direction to some degree, and we broadened out our bond to take on all consumers of electricity. At the same time as that was broadening out, the banks were starting to change their situation and I believe we were exposed to possibly the first request in Queensland to move in where a bank had moved out. That was in the town of Weipa. That forced the board of directors to evaluate what sort of risks there were in moving into that sort of environment, which was outside of our previous experience. We chose not to go into Weipa but we did set up a number of arrangements whereby we would only go if, firstly, we found a shared operator and, secondly, if we had free facilities. We were not naive enough to think that we could go into an area a bank had moved out of and operate profitably.

Once we set that quest up, we were looking for a partner to move into one or two of the areas that we had identified, which were in the areas where we were operating as well. At the same time as we set our quest up, CreditCare came into operation. As soon as CreditCare became a fact, we immediately interfaced with them and told them what we were seeking. Since then we have been operating very effectively in an arrangement with CreditCare which allows us to expand the principles and experience we have had in operating in those rural areas.

That, I believe, gives you an overview of where we are as a credit union. We have been operating for 25 years. We cover the state from Thursday Island and we recently opened in Dirranbandi, so that gives you the dimensions. I think Clive could develop the statistical base from there as you require.

CHAIR—Thank you very much for that. I also welcome Mr Mike Fordham. Thank you for joining us at the table, too. Mr Watson, would you like to comment?

Mr Watson—I would like to give you a bit of background to CreditCare and our involvement here in Herberton, which will set the stage for David's and Clive's comments in terms of delivery of services. As you know, CreditCare has been going almost three years. We have helped something like 45 communities regain access to basic banking services. The Herberton model is probably the one that excited the most interest within our team and with other players or other potential stakeholders, not just in Queensland but in other parts of Australia. As Anne Portess said, when the council here heard that the bank was moving out, it invited us to come. As we do at all of our presentations, we made the council feel comfortable about the ability of a credit union to deliver a range of services to its constituents. We also put a lot of emphasis on the credit union philosophy of self-help.

Credit unions are mutual organisations owned by their members for the benefit of their members, so mutuality is a very important base on which credit unions are built. We unashamedly challenged the Herberton Shire Council to become part of that self-help community solution and to consider providing premises for a credit union to operate from, and I always start from that premise.

As Anne explained, they were a little short on accommodation in Herberton but, as I happened to have arrived here early, I had walked up the main street and had seen what you are shortly going to see—a very smart-looking, refurbished building which was being used by the Queensland Government Agents Program to provide a service one day a week—and it occurred to me that was a waste of an excellent resource.

As it happened, three weeks before that I had a meeting with the Minister for Local Government and Planning, Di McCauley, and her people to outline what we were trying to do in smaller communities. Their parting words were, 'If ever we can do anything to help, please give us a call,' so they got a call. Anne Portess also threw her weight behind that call. To cut a long story short, we had excellent support from David's people in the Office of Rural Communities and from Mike's through the Department of the Premier and Cabinet. All of the people we spoke to latched on with some excitement to this idea of a self-help solution and, in particular, an aggregation of services.

That aggregation of services principle has certainly excited interest in the Queensland government and other governments. Our experience is that in communities of this size and smaller, which is what we traditionally have to deal in, the opportunity to go in with a greenfield type of financial service and make that attractive to a financial services provider, with it knowing that it is going to operate at a loss for 18 months to two years, is a pretty tough call.

If you can aggregate the services with some other service provider—and that picks up on what Anne was saying about making that aggregation even broader—you really are bringing not just financial services into that community but other services that it needs. We have done that in Dirranbandi, for example—without taking anything away from Herberton—where we, this credit union, worked with them and with the government to bring back financial services to a community which had not had them for a decade and to bring it government services for the first time ever. That is the power of aggregation. I would like to have that set as a base behind any further discussions we have about Herberton. We have since developed a number of other models and I would be delighted to talk about those if the committee wants to hear about them but, really, this place was where that form of modelling started.

CHAIR—Thank you.

Mr Arber—I will briefly mention the Queensland Government Agents Program. It is a network of one-stop shops delivering quite a range of government services and information on a face to face basis in rural communities. Currently we operate 42 of the sites on a franchising basis. The Office of Rural Communities does not actually run any of the sites but approaches a government department, a local government authority or even now a credit union to deliver government services and information at a particular site.

In Herberton, the pre-existing arrangements were that the Department of Public Works and Housing operated the site with their staff but on a franchising basis with us to say what types of services they would deliver. The arrangements were that the agent operated at Ravenshoe four days a week and operated in Herberton one day a week. When we were approached about allowing the credit union to come in and operate from the Herberton site, we were enthused by it because we knew that people would become more familiar with the site and would bring more people into what we saw was the government agent office. We then contacted the Department of Public Works and Housing that operated the site. They were quite enthusiastic to allow the credit union to move in on a rent free basis.

More recently, as Tom just pointed out, in Dirranbandi the credit union wanted to move in and approached us about supporting that activity. Largely our support there was if the credit union were willing to become government agents to deliver services and information on behalf of government then we would provide them with funding to do so, which would enable them to reduce their overheads. That has worked fairly successfully, I think.

CHAIR—Could you expand on what sort of funding?

Mr Arber—The Dirranbandi model is quite interesting. I got a call from Tom Watson to say that the Electricity Credit Union would like to move in there, but they were a bit apprehensive about taking a significant number of deposits in the very early stages to make them viable, and would the Office of Rural Communities have a grant or some sort of subsidy that could see them through the first period of time whether it be one or two years. I said, 'No, we are not in that sort of business. However, would the credit union be willing to become a government agent in Dirranbandi,' knowing that there were no service providers there apart from police, the school and the hospital and they were not delivering anything like whole of government service. The credit union and Tom leapt at the opportunity. They said, 'Yes, we would love to take it on.' So when the credit union opened—I think it was in November last year—we then undertook to train credit union staff in government agent service delivery and a government agency opened there on 1 May this year. The credit union is delivering a range of government information and services.

CHAIR—Could you be more specific?

Mr Arber—More specific about the funding arrangements?

CHAIR—And the services.

Mr Arber—There is a standard range of services that government agents provide. I would be happy to give you a listing of that. It includes transport issues—registration, changes of registration, heavy goods vehicle registration, trailer registration. In some centres we are able to do licensing, but sometimes that it is a bit more restricted for certain people. It includes public rental housing activities, public trust activities concerning provision of wills, handling of estate matters and things like that. It includes WorkCover applications. There is quite a range of bits and pieces. The list goes on quite a bit.

CHAIR—Could you explain the money side?

Mr Arber—What we agreed was that we would largely pay the rent of the building that they would move into. We would give them a subsidy that would cover that rental on an annual basis if they were willing to provide the services and information.

Mr ANTHONY—And people?

Mr Arber—And people, yes.

CHAIR—Presumably you have some fee for registrations and things like that.

Mr Arber—That money goes back into consolidated revenue.

CHAIR—So there is no commission on anything.

Mr Arber—No. Government agencies operate a different range depending on their population size. Dirranbandi is not terribly large—500 people. On that basis the actual figures turn out at $9,000 a year for information and service provision. The Office of Rural Communities provides all the electronic equipment for the agency to deliver its services. We also assist with continued training programs and form a community reference group within each community to assess government agency service delivery and to improve the marketing within that community of the government agent service delivery.

Mr Fordham—I was involved in the Ravenshoe QGAP from early days in establishing a new site there in Herberton in what you said was a fine-looking building. Anne Portess mentioned it earlier briefly, but you cannot emphasise enough the personal side or the personal touch, the community sense of a QGAP office, in that the banks were a focal point of a town and a QGAP office is there in part to fill that void. It really does work very well. People do see this, particularly in the Herberton and Ravenshoe models, as somewhere that they will go and have a chat. It is a place where there is a noticeboard and all those sorts of things. It also provides a human resource in the town—you have a public servant there who will run the football club or the tennis club or whatever, and if a bank closes down all those things go.

It is all very well to talk about electronic means of banking. I guess I would not share Telstra's optimism, from my experience in this part of the world. The Queensland government, along with the Commonwealth, is trying to address some of those issues, but even if we do overcome the infrastructure issues and the cost issues, we still do not really achieve a whole lot for places like Herberton.

Mr Skarott—When our credit union got involved with CreditCare at the outset, as Phil said, we were looking at doing this type of thing. The first model we moved into was Georgetown. We share the premises there with the local authority, the Etheridge Shire Council. It works very well, except that the situation we had our office in did not work so well and we did not get the people joining, for one reason or another. They did not like to come into the credit union office and have all the council staff see who was coming in and out of the credit union office. That has been addressed by the Etheridge Shire Council. Our staff have actually been trained now and they will be running the Etheridge Shire Council library, as well as doing credit union duties, in an area that is totally separate. The library will be in the old Westpac Bank building in Georgetown.

In the Herberton case, as Anne said, the bank gave six weeks notice, and we were very keen to move into Herberton. Along with Tom, we quickly structured ourselves, met with the council and did the usual things that we do. Our rule is that we must have free accommodation. We were able to achieve that, as Tom has said. We held a public meeting on the Wednesday week before the bank closed. There were about 70 to 80 people in the hall over there. For a community of this size and, given what I have seen in other towns, that is a really good attendance. I told the people at the meeting what the credit union could do for them. We opened for business on the Monday prior to the bank closing on the Friday. I started with two staff and I found that two were not sufficient to handle the people that were coming in. I had to send an additional person from Cairns, who actually lived down at the bottom of the range, so it was cost-effective for us to be able to do that. She came up for three days to help us get all the people signed up.

The Herberton operation became quite cost-effective in a very short period of time because of that. We had people come in, join the credit union and bring their life savings across to us. We had people come in and invest money in term deposits and we had a number of borrowers. Actually, we just about signed up every business house in the main street of Herberton. The one we did not sign up had full intentions of coming across with us. He appeared in a photo in the paper with me where we said that he was moving his whole business to us, but by the time he went to the bank to talk about shifting from the ANZ to us, the ANZ had lost so many customers that they offered him an interest rate that he could not afford to knock back, so he is still with ANZ today. They did not offer the same rates to the other people who moved their businesses across to us.

We found that generally we have got really good support from the communities. The schools are all banking with us and all the clubs in the town have moved their business over to us. We do the school banking at Mount St Bernard College, and the parents of the students attending Mount St Bernard College are coming and joining their children up with the credit union when they come in from the bush to put their children into school. Some of the parents are joining the credit union as a result of that because they like the service. I tell them that, if they have an account with the credit union, they can just ring up over the phone and transfer money into the child’s account or they can have a regular transfer from their account to the child’s account. That works really well.

The operation today still has two people working. One person is full time and the other person is part time, but it is almost getting to be full time. Since we have opened, we have continued to have people joining us. We are averaging one to two new members every week. The business itself has picked up. We are now supplying the whole of the community with money, which we were not doing previously and, consequently, we are having some difficulties with money. A couple of the drawbacks have been the cost of getting money into Herberton. For instance, in Cairns, we get Armaguard to deliver to our premises but we have got an exceptional problem getting money into Georgetown. We continually run out of money in Georgetown. We tried Armaguard once because there was a dire need for money in Georgetown. Armaguard charged us $1,000 to take $12,000 into Georgetown and that is still what they do if we use them. We do not use them. We have another—

CHAIR—What does that actually involve in terms of distance, time, et cetera?

Mr Skarott—In a round trip, you could do it in about nine hours driving. They would not drive. They hired a plane. They flew in and that took an hour each way from the time they hopped on the plane until they hopped off the plane and they charged $1,000. That is one of the drawbacks.

We have similar problems at all our isolated centres. There is a delay in getting money into the town when they need it. All the sporting clubs have joined us and, when they have the one big sporting event for the year—like the Einasleigh weekend which is over Easter, where there is a two-day race meeting, a rodeo and three nights with a bush dance and a barbecue—we have to get something like $14,000 in change into Einasleigh for that weekend. It is a problem for us to get it in and also to get it out. That is consistent across the towns. In Dirranbandi, for instance, this coming weekend is the big horse riding weekend where everybody comes from all over the place for polocrosse, I think it is. They come from New South Wales. There is no money in the town and we have to get money there for them because they bank with us. It is a cost in every situation for us to get money into the town.

The other costly thing, apart from our labour—as I said, our labour is being paid for out of the profits from the Herberton branch—is the cost of an online terminal into Herberton of $9,000 a year. We had to buy some special equipment for our Cairns office, which was the cheapest way to do it from the Cairns office to the Herberton office—$9,000 a year.

In Dirranbandi, we have not yet put the online service on because I have had three different quotes—the smallest quote was $22,000 and the dearest quote was $28,000. You can imagine how much business we have to write just to pay back the terminal cost. What we have been doing is promising people—given what I heard the Telstra guy say this morning, I may have been wrong—that about October this year we will be able to offer online services over the Internet. At the present time, we are on the Internet. Our members who want to use our Internet service can actually get their own account information off the Internet, print off their own statement and get information on their transactions and everything else they may want to know.

Our computer service providers are writing a program that will allow full banking over the Internet in our offices. You need a PC at either end that has the capacity to hold the encryption code, which, I believe, is 128 bytes. But given what I understood the Telstra guy to say, I may have been incorrect in making the promise that we will be able to provide the service over the Internet because I am not sure whether the Internet lines are going to have the bandwidth that we need for centres like Blackbutt, Dayboro, Kalbar and these other centres where we have been avoiding the issue of having an online terminal simply because of the cost. Kalbar is an hour's drive from Brisbane, but the line cost for Kalbar would be the same as the line cost here—$9,000 a year. Blackbutt would be about $12,000 a year and Dayboro would be about $9,000. It is really costly to put in online services.

The other thing is, in Herberton, because we found we have to do our banking here for Herberton into Atherton, we need two staff members. One stays here; the other goes down in her car and does the banking. We pay her vehicle allowance for the use of her own car. For the last financial year, her vehicle allowance was just over $2,000. Armaguard has a service over the tableland once a week, but the cost to our credit union would be a lot more doing it in that fashion. In Herberton, we are self-sufficient in change—it just goes round and round. As our bank only goes down to do cheques, it is not worth paying Armaguard for their once a week call.

The other thing is, we have to get the cheques down to the bank as quickly as possible, especially after 1 October when all cheques are going to have to be cleared in Australia in two days. This is really going to be a concern to those credit unions that operate in the bush. At Dirranbandi at the moment we are posting our cheques in to our Brisbane office to get them into the bank. The mail service from Dirranbandi to Brisbane takes four to five days. So when we come in with this new you-beaut cheque clearing system that is being forced onto us all, it will be okay if you are in the city.

We would have no trouble having a two-day clearance for the city, but we are going to have problems getting the cheques in and clearing them within two days. Of course, the penalty if something goes wrong with the cheque and you have not cleared it within two days is that you would have to carry the loss on the cheque. The credit union would have to carry the loss on that cheque. That is my understanding of it. It might not be as severe as that, but it could be interpreted in that manner.

We genuinely want to get our computer services online to these branches because, for us to be truly effective and to give the people the service that they want, we have to be able to provide online terminals. At the present time, simply the cost of online terminals is out of the question. The head office of our credit union is in Cairns but with the way Telstra works we cannot have the computer in Cairns because all the lines where we are situated run from Brisbane to the north, all over the state. They run up the state and out along the various lines, from Rockhampton out to Longreach or from Townsville out to Mount Isa. If we had our computer situated in Cairns and it was running in the reverse direction, we would not be able to afford to do it. The cost would be unreal. That is how the systems were originally built and there is nothing we can do about it.

Our computer is based in Brisbane and we run out of there. The cost of our own line to provide about 30 terminals to our head office in Cairns from Brisbane would be $26,000 a year up the coast. When they are asking for $22,000 to $24,000 to run a line from Brisbane to Dirranbandi, you wonder where the comparison is. It is a lot cheaper to run up the coast because that is where the broad length and width of line is available. That is how we are set up, to suit those communities.

One of the things a credit union is faced with in coming to the smaller towns—and this is not just Herberton, this is all of the smaller towns—is an obligation to pick up as many commercial businesses as we can. That creates a higher risk for our credit union. When you buy a business in a town, you do not readily find someone if you want to sell it; you have to wait until the right person comes along.

There is a higher risk, like what Anne was talking about, such as with people converting to us. If their own house is involved, they can transfer a mortgage from one institution to another institution without having to pay stamp duty. But, if it is a commercial loan for a commercial business and you move from one institution to another institution, you have to pay stamp duty again. In some instances, the banks will have a charge whereby, if you are exiting out of an agreement before a certain period, they will put some charges on it. A lot of people are saying to us, ‘As soon as we get rid of this debt we have with the bank we will be moving our business across to the credit union.’

The other thing we find in these rural towns is that we often unintentionally get a bad name for ourselves. The only way we can exist is by lending money. There is no other way. We do sell some other services, like all of the credit unions do, but our real income earner is lending money. In a lot of these smaller towns the people are only on social security and, consequently, we have to knock the loan back. They may come in and say, ‘I want to buy a car.’ They might say they need to buy a car so that they can go and look for a job, but we have to knock the loan back because we can see from their social security payments that it would not leave them with enough money left over to pay their debts if they did not get a job.

When we knock them back for a loan we get bagged. But if we gave them the loan and later on we were challenged under the Consumer Credit Code and asked, ‘Why did you give them the loan?’ and we said, ‘We felt sorry for them and we were hoping they were going to get a job,’ a decision could be awarded against us. We would have to suffer the total loss of interest on that loan plus the loss of capital on the loan. That is under the Consumer Credit Code.

As a credit union we would take a punt, and in the past we genuinely tried to help people through these things and often did, like giving people money when they needed to take children to hospital and that type of thing. But since the Consumer Credit Code came in, you cannot try to help people because of the fear that you could lose the case when it comes before the Consumer Credit Code. It is a sort of double whammy where we can lose against the code. When we knock someone back they do not understand why we have knocked them back because we do not have to give a reason, but usually we tell the truth and say, ‘You just haven’t got enough equity for us to take the chance to give you that loan.’ So they turn around and bag us, and that does not do us a lot of good.

Our credit union sells a number of other services other than credit union services that are really good for people in rural and remote communities. We sell all types of insurance—house, car and motor vehicle—which is a great benefit to the people because they do not have to leave their town. If there is no agent in their town, and in a lot of these towns there are no agents, they are able to get their car insurance or house insurance fixed up, or if they buy a boat to fish on the local dam they can insure that with the credit union.

We also provide a health fund through National Mutual and Government Employees Health Fund, and the beauty is that people can pay monthly out of their credit union account. When people in Herberton want to make a claim on their health fund, they often have to wait until they are going to Atherton and then they get the cash. With our health fund, we provide people with three post envelopes to post off to the health fund. It only takes the time it takes Australia Post to post it from Herberton to our health fund in Sydney. Sometimes that takes about 10 days but the health fund does a direct credit to our members’ accounts. In lots of cases where the member is on the borderline and we know that they are putting in a health fund claim and they are going to get $300 back, we allow them to overdraw and carry them until such a time as their money has arrived. Being a credit union, you do offer that type of thing.

In some instances, we need further assistance from government to help us continue to provide these services. In Herberton there’s us—and we are making some money out of lending and providing the services we do—and there is QGAP. But we are looking along the lines of providing some federal government services, similar to QGAP, and the federal government being able to give us something for providing those services. Some of the things we have thought about include ensuring that all social security payments for the area come through our credit union and things like drought relief or any type of government subsidy or government service that could be extended out into rural areas, in conjunction with QGAP. QGAP has had experience in delivering the services and could go to the federal government and show them how services could be delivered to the area, for which we would be compensated in some way, thereby reducing the cost of service through our credit union. That is about all I have at the moment, unless you have some questions.

CHAIR—Thank you very much for that. Mr Skarott or Mr Watson, you mentioned services like the health fund, insurance and so on. When the bank closes its last branch, how many services are you replacing here in Herberton?

Mr Watson—All services—credit unions are replacing all of the personal banking services that the bank had. It is replacing the commercial banking services—although there is currently a limitation under the AFIC legislation that 10 per cent only of your book can be in commercial loans. Under APRA, from 1 December that restriction will be removed, and we will be arguing very hard with AFIC in the meantime to let the ceiling float up.

Mr Skarott—We are up to the 10 now.

Mr Watson—He is up to the 10 now. Personal banking, yes; and commercial lending, small business banking services, yes. In terms of primary producers, we have formed an alliance with the Primary Industry Bank of Australia, which is owned by RABO Bank which, in turn, is owned by the credit unions of the Netherlands. That is why we sought them out as a partner. We feel they come from a similar philosophical base. I am sure you have heard some of this. PIBA, unfortunately, have a lower ceiling of a quarter of a million dollars—that is what they look at as a primary producer loan in their portfolio. We have worked very hard to get them to lower that ceiling to something a little further down the track. We can offer all the services that the banks were offering, in partnership with PIBA. That is the short answer.

CHAIR—Coming back to the problem you have had in Dirranbandi—four days for the post and $22,000 to put in an online terminal—I presume that if you had the online terminal you would be able to do the cheque clearance in two days quite easily.

Mr Skarott—No, we would still have to get the cheques to a bank to clear through the clearing system.

CHAIR—Have you sought any dispensation on that?

Mr Skarott—Not at this stage.

CHAIR—Are you considering doing that?

Mr Skarott—Yes. We have only had one meeting so far where we have been enlightened as to what all this means. CUSCAL have got another meeting programmed for August for that and that is when we are going to find out the nitty-gritty and that is when I am going to express the concerns I have.

Mr Watson—The cost of the dedicated data line is another issue. As Clive says, if Telstra can deliver a reliable, reasonably fast datalink service via the Internet by satellite et cetera, then obviously that is the way to go. As somebody said this morning, it does not have to go at a million miles an hour; if it goes at a thousand miles an hour and gets the data transferred, that is fine. That is all you really want.

But it is prohibitive for us to try to encourage a credit union to invest $23,000 or $24,000 a year in a data line when they know that they are going to run at a loss for anything up to 18 months. It takes an awful lot of convincing to convince a board of directors to bite the bullet on that one. Again, if you can aggregate that, if there is a service going in via the state government to a school or there is a service going into the police or the hospitals, as Anne said this morning, if somehow that can all be pulled together so that everybody benefits, instead of this isolation approach, then we really start to achieve something.

Mr Skarott—What is really happening with those is that everyone is going to Telstra as an individual. Each body is putting a line in, so they are charging each body, whereas if we said, ‘Okay, we want a line in there. Instead of everyone's line being that wide, let's put one in this wide, and we can share it,' everyone is not going to be on the Internet together, so you can use the bandwidth to your advantage at certain times.

CHAIR—You were talking about the aggregation of services and bringing the Commonwealth in. Have you had any discussions with any of the Commonwealth agencies? If so, what has been the upshot?

Mr Arber—Yes, we have had some success. We have had trials of service delivery with Veterans' Affairs. As recently as a couple of weeks ago, they signed an agreement for the government agent network to deliver information and referral services on their behalf to people in rural areas. I think we have had probably three or four discussions with Centrelink, which we see as probably being a primary partner in delivering services, but they seem to be a little concerned about our service fee charges, which are currently $40 per hour of service delivered. That is not information provision—that is service delivered.

However, I am sure that if they were to actually and accurately cost the delivery of their present services to rural communities they would probably find that the current way they do it is more expensive than doing it through the method we use—which is to pull services together so that agencies are only paying for the amount of time that it takes to deliver the service. They do not have to employ the people out there. They do not need a facility; we supply that.

Mr ALBANESE—This question arises out of the mayor's previous contribution. We have heard there are 1,000 people in Herberton and approximately another 500 in the outskirts. Do you know what percentage of the population went over to the credit union here?

Mr Skarott—If 750 is half the population, we are nearly there.

Mr ALBANESE—That is total population, too.

Mr Watson—Yes, taking in children and all that sort of thing.

Mr Skarott—That is counting children and the clubs, because we have just about signed every club up in the area.

Mr ALBANESE—Do you know how that compares with what the ANZ had here? I assume a lot of the ANZ customers banked at Atherton anyway.

Mr Skarott—I really do not know what the ANZ—

Mr Watson—I can answer that in broad terms. Of the 40-odd sites that credit unions have gone into, the market penetration is averaging 41 per cent. Some of those sites have been open for only three or four months.

Mr ANTHONY—Forty-one per cent of?

Mr Watson—Forty-one per cent of the population have become members of that credit union.

Mr ANTHONY—Total population?

Mr Watson—Yes, for those centres.

Mr ANTHONY—That is good.

Mr Watson—There are eight areas where it is in excess of 55 per cent, there are three where it is in excess of 70 per cent and there is one where it is 90 per cent. We know, from the work we have done, that that is better market penetration than the exiting bank had. On Magnetic Island, for example, which is not really rural but it is remote, if you run a business there and try to do things on the mainland, you have to give up half a day to go to and from Townsville. There has been a credit union there for a year next month and they have achieved something like 60 per cent penetration of mums and dads and businesses in that 12 months.

So if you get the council, the community leaders and everybody else enthused about what we 'sell' as a community solution to a community problem, then the community comes in behind you. One thing that has not been mentioned so far this morning is that the first thing we did in Herberton, after we had won the support of all the local councillors and the mayor, was to do a survey of the total community. Even in that there was an element of self-help because the community—

Mr ALBANESE—Was that before you established the facility here?

Mr Watson—Exactly. We went out and asked them what sort of funds they were prepared to commit and whether in fact they would even support a credit union. The distribution of that survey was done by the community in another gesture, if you like, of self-help. That started to get them attuned to, 'Hey, we can help ourselves,' which is a fairly important element in all this.

Mr Pollard—We have also set up a little area committee, so there is an ongoing ownership philosophy. In Herberton, there is a committee that feeds back to the credit union. They also determine what they wish for their sporting events, whether they want prizes. They do a 12-month budget on what they want for local events. We tell them roughly what we can provide. They will then set it up, prioritise it and arrange the presentations.

Mr ALBANESE—In terms of sponsorship?

Mr Pollard—Yes. That committee looks a bit broader than that. It looks at any internal problems as well. So it becomes total town ownership.

Mr ALBANESE—How is the committee established? Is it elected by the credit union members?

Mr Pollard—Selected, elected—put it that way.

Mr Skarott—I selected the committee from those community people who were at the public meeting and asked the right questions and were all for doing something in the community. Those same people are also in a lot of the sporting organisations.

Mr ALBANESE—Is that a familiar model?

Mr Watson—Yes. With every community we go into, we encourage the credit union and the community to form a local area committee. As we said initially, credit unions are mutuals which were formed by groups of people who wanted to help each other. So when we take a credit union into a community that is not familiar with it, we try to get them to understand the credit union model. One of the ways of doing that is to have them form a local area committee so that they can have a say in the style of services delivered to their community, the hours of services they operate, what additional services they need and what activities in the community should be supported by the credit union—all credit unions want to be part of the community—and the community itself is the best judge of that, rather than the credit union sitting back in its head office. That community ownership is a feature we introduce into all of our centres.

Mr ALBANESE—I can see a potential negative. I do not think it is real, but there is a potential perceived negative of a community saying, ‘It is too localised, therefore everyone will know my financial business compared with a big multinational like the ANZ.’

Mr Watson—I struck that question at the very first site we opened in New South Wales, at Werris Creek, south of Tamworth. A fellow said to me, ‘I hope you are not going to employ locals.’ My answer to him, without wanting to be unfair to him, was, ‘What, not even your own daughter?’ I let the question hang in the air because I had learned before the meeting started that his daughter worked for the ANZ Bank, which was the bank that was leaving town. Everybody in the audience knew that his daughter worked for the ANZ Bank and that just killed that issue straightaway.

It is a question of trust. People say, ‘You are not going to employ a local?’ and my usual answer is, ‘For heaven’s sake, within six months they are going to be in your P&C club, they are going to be chairing the tennis club and they are going to be in this, that and the other. They will not be a foreigner anymore, they will be a local. They are going to be part of the community.’ It is all a matter of trust.

We have a golden rule in credit unions: your first breach of confidence is your last. We make that very plain to the community. Clive and his colleagues in the credit unions make it very plain to any staff they hire that there is no second chance. It has not been an issue to date.

Mr Arber—It is the same with government agent business. If you are planning to write a will for somebody, they have to have the trust in you to be able to do that with confidence.

Mr ANTHONY—This is obviously the Electricity Credit Union. How many other credit unions are there in Queensland similar to yours?

Mr Watson—There are currently 15 credit unions in Queensland. Only eight of those, though, have what we call an open bond. The other seven are close bond; they deal with the employees of the particular industry or the people of a particular community. They do not go beyond that. So there are really only eight that we can work with. To date, we have been able to work with four of those.

Mr ANTHONY—Is the Electricity Credit Union the biggest in Queensland?

Mr Watson—It is what we call a medium-sized credit union.

Mr ANTHONY—You have obviously gone out to all of these smaller areas. Are there many others who have done what you have done?

Mr Skarott—Not to the extent that we have done.

Mr ANTHONY—You have not got into bed with government agencies at all?

Mr Skarott—No.

Mr Watson—The Electricity Credit Union has been by far our greatest supporter in this state. Part of that is because, as Phil said before, they have always operated in small communities. It is not something foreign to them. It is very difficult to go to a city based credit union and say, 'Hey guys, how about you come out here and adopt a country town?' They do not even know how country towns think. It is a challenge for us. We do not have that problem with the Electricity Credit Union because that is how they grew up.

Mr ANTHONY—As an example, you have 41 per cent in this town and in other places it is a lot higher. Are you able to hold on to many of the big customers?

Mr Watson—We have some very significant customers in a lot of areas. I will let Clive answer it specifically for him, but I have to say that the banks have gone out of their way in many places to hang on to those. For example, we know that as we have started to gain support, they have gone out to key customers and agreed to knock two per cent off their loan interest rate. Or if we looked like stitching up a deal with PIBA, they will come along behind us and offer a better rate to that existing client. They really have worked hard at keeping hold of what they call their key customers.

There is another little exercise that we have come across—and I do not want to sit here and bank bash, but I will deal with facts. In one community that we went into we were just talking over supper and one guy said, 'Where did they shift you to?' They said, 'Oh, town X.' The guy said, 'That is funny, they shifted me to town Y.' We discovered that for about three months before they announced the closure they were shifting customers of a certain level to a certain town, customers of another lower level to another town, and leaving the rest in the current town and were going to shift them to Z on such and such a date. Part of their rationale for deciding that branch was no longer profitable was made after they had moved group A out of that town.

Mr ANTHONY—And do you think that is common practice?

Mr Watson—I do not know whether it is common practice but we have heard about it.

CHAIR—Was it a specific bank?

Mr Watson—Yes.

CHAIR—And what sorts of numbers are we talking about?

Mr Watson—I could not tell you. The locals are getting offended because Bill had been shifted to X and Jack had been shifted to Y. So it was, 'Why the hell did you get X and I only got Y?'

Mr ANTHONY—I have two other questions, which you would have heard this morning. Are you confident—and you are probably not—that Telstra will be able to provide the adequate services and information link-ups? Secondly, I know you are not reporting to shareholders as a credit union, but there must be a certain threshold. Is it that you are making an adequate return or just covering costs so are able to stay in particular communities? For example, within the Electricity Credit Union, what is the benchmark?

Mr Skarott—If you take Herberton, if we were paying market rent on the premises that we have got, we would probably be running at a loss. We have got free rent, and the profit we are making is covering the expenses that we have got for putting the terminal in, employing two staff and getting money into the town, or out of the town as the case may be.

There are a couple of centres where we are not running at a profit. Consequently, this is going to affect and is affecting our credit union. The capital adequacy of our credit union has fallen by 0.7 per cent in the past financial year. The new APRA legislation measures credit unions on capital adequacy and we have projected it forward in our budgets. Our capital adequacy will run into danger if we do not do something about it. I might add that we have done something about it, and I will explain that in a minute.

Our capital adequacy will be in danger by 2001 and we will be forced into a merger or something else if we do not turn around. We have turned around our capital adequacy. We were practically a fee-free credit union and we were very proud that we were fee free and never had a lot of fees at all. As a result, on 1 September we will be introducing fees. Our fees will be a lot cheaper than other financial institutions, but we have had to bring in fees because of some of the things that we have been doing in helping people. So whilst we have been really good for our members in that we were fee free, we have been endangering ourselves by continuing with that.

We have also provided our members with free death cover insurance which meant that, had they had a loan with the credit union, the loan died with them. We are no longer providing free death cover insurance, but we have had to take those two initiatives to overcome the situation that we could see arising down the track. That situation will reverse, but it is just that we have a couple of branches at the moment that are not travelling really well, where we went to people in the bush. As a result, it is affecting us.

When APRA comes in on 1 December, they are going to measure each individual credit union and they are going to set the capital adequacy for each individual credit union. They could say to us on 1 December, 'You have to have a capital adequacy ratio of 12 per cent.' We could have dropped down from 11.3 per cent to 10.6 per cent—somewhere in between that—but had we made a bigger profit, we would have been at the 12 per cent.

Mr Watson—Can I just add to that. The benchmark currently is eight by the way, so he is well ahead of the current benchmark for capital adequacy. Your point is a valid one and one of the things that we say to communities is, ‘You’re going to be looking to the existing membership to subsidise your community until such time as this particular area becomes profitable,’ and that is a big ask. Hence, our request to people like Anne Portess, David Arber and others to find other ways to minimise the exposure of that sort of expense to that credit union.

Equally, I happen to belong to the school that says it is the overall bottom line that matters and that some communities are going to be deposit givers and others are going to be loan takers and it will not necessarily be a profitable operation in its own right in a particular community. That happens to be something that I believe in very strongly because in my own credit union that is exactly how it works: site A is a depositor and site B is a borrower but thank goodness there are sites A and B, otherwise the thing would not work.

There has to be a balance there. Sure, we want it to be profitable in its own right but, as Phil has said rather eloquently to one mayor, as long as it is not costing us money and as long as it breaks even, we will be happy—we are covering our costs; it does not necessarily have to make a profit contribution. That is the bottom line. I think that is the view you hold, isn’t it, Phil?

Mr Pollard—That is the basis on which we entered the rural areas. It does not have to break even in our trading. Provided we can get partners in so the whole process breaks even, we are content to support the whole concept.

Mr Arber—I think that there is probably a good case for that element to be expanded out in the model: the alliances that have existed through CreditCare, the Queensland Government Agents Program and, perhaps, Centrelink. I have noted that submissions have been given on behalf of indigenous communities. I have also noted that a credit union that is an Aboriginal incubator model is being established in Victoria. I think that there could be—and it would be very interesting to look at maybe piloting this—a program whereby perhaps the Queensland Government Agents Program and a credit union combined could look at bringing financial services to an indigenous community. If that were to succeed, we would be well on the way to resolving some of those issues with indigenous communities.

CHAIR—Just on a couple of other issues: when that 10 per cent ceiling is lifted, will you still find it useful or advantageous to maintain that link with PIBA for rural lending?

Mr Watson—At this stage I would have to answer yes. We have, in fact, commissioned some consultants to write a paper for us so that we can give credit unions guidance about rural lending, because it is a specialised field—let’s face it. Because CUSCAL, our peak body, now enjoys the same mid-term credit rating as that of the major banks and also the top short-term rating equal to that of all of the major banks, we are now in the wholesale funding market as an industry and as a movement. Credit unions like Clive’s can access those wholesale funds in some cases at a better rate than they can access deposits from their own members, but that is a forever changing scene, of course. That opens up all sorts of opportunities for credit unions to get into commercial and rural lending. To try and help them get into that, we have commissioned this paper so that we will have some expertise and can hit the ground running.

Mr ALBANESE—In the areas in which you are already active, how competitive are you compared with, say, the big four banks in terms of interest rates for deposits and loan rates for small business and individuals?

Mr Skarott—In the first instance, we have for housing a honeymoon rate for 12 months which is slightly above the banks' at the moment. It was competitive but we just—

Mr ALBANESE—What does 'slightly' mean? Is it half a per cent or one per cent?

Mr Skarott—No, we are 6.25 and they are around 5.99 and 6.1. Our variable home loan interest rate is the same as the NAB's. We made a policy to keep that rate the same as the NAB's and we have done that for about the last five years, since we decided to do that. Our personal lending rate is 13¼ per cent and there are no charges associated with borrowing from our credit union. But if you are a total member with our credit union—in other words, if you have a loan with us, have your payroll coming to us, are using our health fund and all the different multiplications of that—we will drop the personal lending rate down to about 11¼ per cent. I think that is better than what is available with the big financial institutions. The fact that we do not have any bank charges and that we still do not have any account keeping charges or any loan application fees puts us well in front of things.

When it comes to savings interest rates, we still pay the members on their everyday savings accounts where they operate member chequeing and a plastic card from it. We still pay them interest; the banks do not. Again, we have no account keeping fees on any savings accounts and the fees that we are bringing in are only fees for usage. We are going to give everybody $8 worth of fee-free transactions a month and, after they use that, they will pay something like 40c for an electronic transaction, 50c for member chequeing, and 80c for an ATM withdrawal, which is still a lot less than the banks are charging members for similar types of services. The fees we are bringing in are very reasonable and the manner in which we are doing it is very reasonable. The short answer is that I believe we are better across the board.

It is the same with the insurance we sell and the price. We sell CIC and VACC insurance. Across the board, those policies are really good policies and they are cheaper, and they are able to paid for monthly out of your credit union account—you do not have to find that big lump sum once a year to pay it. It is a yearly figure divided by 12 which, again, some insurance companies say, yes, you can pay it off monthly, but they have a fee on it.

On all the services we do—our health funds that we sell are better than the major health funds because you get a better return when you make a claim—you have got the short answer: I reckon we are better across the board than the other financial institutions.

Mr Watson—That is a generalisation too. You have to qualify that by saying that Mr Skarott's credit union and all other credit unions are feeling the pressure of what I call the cherry pickers—the Rams and the Aussie Home Loans of this world—who came in and picked the best part of the market and started to manipulate that and have caused all sorts of problems for genuine financial service providers. I do not know how you address that.

CHAIR—What do you include in that phrase, 'genuine financial service providers'?

Mr Watson—The traditional major banks, credit unions, building societies—deposit taking institutions.

Mr Skarott—The banks deliberately dropped their interest rate by a half a per cent more than the Reserve Bank wanted them to, and it is still down there. We are working on the narrowest margin we have ever worked on. I believe the banks did it and they blamed—

Mr ANTHONY—Rams.

Mr Skarott—Yes, Aussie Home Loans. I believe they also did it to have a go at credit unions, I really do, because if you look at the cost of delivery of credit unions we are well above the banks, and this is one of the things that has helped the situation.

CHAIR—I have a couple of other questions. Mr Arber, with the 42 or 43 rural communities you have—

Mr Arber—Forty-two.

CHAIR—Yes. Does any one of those have either a bank or a credit union?

Mr Arber—No, it is only the Herberton and Dirranbandi sites.

CHAIR—So the rest do not?

Mr Arber—The rest do not. We would not—

CHAIR—What are they then?

Mr Arber—They are government agent offices. They are one-stop shops for government services. We have had an approach from Westpac within the last two to three weeks to see if we would be interested in delivering Westpac's services through some of those government agent offices where they had perhaps pre-existed in the town and now want to return. I think our initial response to them in that meeting was that we would not be interested in offering competition at this stage to a financial service provider that might have gone into that town after Westpac had left. Georgetown is an example of where Mr Skarott's credit union have moved in with some effort, and Westpac closed, and Westpac were considering moving back into that town under these arrangements, and in fact going to the government agent. But we had indicated that we would not.

CHAIR—But you might be if there was no other?

Mr Arber—If there was a greenfields site, we would be interested in going in there.

CHAIR—Mr Skarott, moving cash around seems to be a problem we have heard about in other parts of regional Australia. Would you elaborate on that, rather than me asking you specific questions as to how you see the problem and how you might see a way of making it a little more cost effective for small communities?

Mr Skarott—The only way to make it cost effective for small communities is for the whole community to bank with you. We have the problem in Georgetown, for instance. Westpac run a service where they collect cash through the bus line that runs to Karumba. I do not exactly know how it works. I understand that Westpac have said to all of their people along that bus route, 'Use this or you will lose it.' As recently as three weeks ago, one of our members, who is using it because he does not want to lose it, was told by Westpac, 'We are thinking of taking that away.' He said, 'If you take it away you will lose me.' He has not transferred his whole business to us simply because of that.

In Herberton, every business in the street is a member of our credit union and using our services in one way or another, whereas in Georgetown they all clung on to this bus thing, and we have a real problem with getting the money into Georgetown. We have resolved it as far as we are concerned, but there is a problem with it. That same problem exists in Dirranbandi. It is really hard for us to get money into Dirranbandi, so we have to get the money delivered to Dirranbandi from St George. In all these cases, we have to pay somebody to do it so that we can get it there.

I understand that previously all the banks were subsidised by the Reserve Bank to deliver cash to whatever situations they operated in. CreditCare, as I understand it—Tom will correct me if I am wrong—said, 'Hang on. This is not a level playing field. Why aren't we being subsidised as a credit union movement to get cash into an area?' The Reserve Bank did an investigation and said, 'That is it. We are not giving any subsidy to any financial institution for the delivery of cash.' As from 1 July, the banks lost their subsidy for delivery of cash around the nation. I do not know what the outcome of that is going to be.

Mr ALBANESE—That happened three weeks ago.

Mr Skarott—That is my understanding. Whether that is exactly right, I don't know, but I was given that understanding. Recently one of the banks closed and I was given that understanding, that the exact reason why the bank closed was that that put the bank in an unprofitable position. We have opened in that area since and are doing a roaring trade.

Mr Watson—I want to make a couple of quick comments. I want to reinforce something that Anne Portess said this morning about the penalties that people suffer trying to transfer their affairs from the exiting bank to the incoming credit union. In Queensland, on the home mortgage front, I would like to think that CreditCare made some contribution to the change of heart by the Queensland government in waiving the stamp duty when you are shifting your mortgage. But business people wanting to transfer commercial loans face very hefty penalties in many cases for doing it. We would argue that if a business in a community wants to support its credit union but is prevented from doing so by the bank that no longer wants to support his community and that hits him with an horrendous exit fee, that is patently unfair. We would like to see that issue addressed.

CHAIR—Can I clarify this exit fee? You are not talking about stamp duty.

Mr Watson—No.

CHAIR—You are not talking about the cost of buying out a loan—

Mr Watson—I am talking about penalties for getting out of a loan ahead of its completion.

CHAIR—Over and above interest lost.

Mr Watson—Yes.

Mr Skarott—They have some clauses that say that they will pay the loan off by a certain time and if they pay the loan off prior to that time there is a penalty. I remember that the building societies had an exit penalty and they got the cane over having an exit penalty. Now it says that you will not pay a loan off until a certain time and if it is paid off before that time you pay a penalty. They justify it because of the cost of money and all that type of thing. The loan has got to cover that duration for them to make anything out of it.

Mr Watson—The injustice of all this is that the biggest losers when a bank leaves a community are small businesses. They have the potential to be the biggest losers. You have seen the figures from other submissions, and our research shows a drop of $320 per household per month in local spending. That is the at worst situation. That is going to impact on small business. We share those facts with small business when we work in the community, and they tell us, ‘It has already started to happen. Don’t worry, we are going to support this thing.’ They want to support us but find themselves hit with a $5,000 or $6,000 penalty fee for trying to shift their business from the bank which has deserted them to the credit union which will support them. That really is unjust. I would like to put that on the record.

The other thing I would like to add is that the Herberton experience gave us the confidence to develop other models. There is a true saying that imitation is the sincerest form of flattery. Westpac are talking about providing government services with the Tasmanian government. They are copying the Queensland model that David has spoken about. Westpac are talking about leaving behind third party agencies in towns rather than leaving nothing behind. Those third party agencies look awfully like some of the models we have developed. The Bendigo Bank has developed a number of models of community banking which look awfully like models that CreditCare have developed. I note the headline in today’s paper about Westpac going back in, about ANZ saying that they will not close any more branches in the next 12 months. I think our program and your committee can take credit for that sort of pressure being put on the banks.

Very quickly, the other models we have developed from this are community solutions where we have set up a member service centre. The old-fashioned term was ‘agency’ but it is better than an agency; it is a community solution where the local council is a direct partner with the credit union in delivering services, sharing staff costs, allocating premises et cetera. Tomorrow night this credit union and I will be in Cardwell, where we are opening a member service centre inside the Cardwell Country Club. Someone just last week said, ‘Wouldn’t it be great if clubs could provide financial services.’ We are going to be doing it as of Thursday morning this week in Cardwell. That is a community owned club that has got spare space available inside the club. It has got staff that can do part-time duties for the credit union and part-time duties for the club. It is a win-win situation for the club, the community and the credit union. I just wanted to make the point that there are other models that have evolved from the credit union-QGAP model, which is the ultimate model, if you like, in terms of aggregation of resources and skills. To me, that is one of the lessons that comes out of the CreditCare program.

CHAIR—Thank you very much for that. Can you give us a little more detail on those two examples you gave of working with a council? Is that just in Queensland or is it in other places?

Mr Watson—Just in Queensland at this stage.

CHAIR—Perhaps you can give us some more details in writing.

Mr Watson—We are happy to.

CHAIR—The one with the club sounds like a very interesting development too. I think Mr Anthony has got some interest in that too, coming from New South Wales. Thank you very much. It has been an extremely valuable session for the committee and we have got a lot of very valuable input to the work we are doing. I take on board the compliment there at the end. We like to think we are doing something effective for the community too.

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

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 2.25 p.m.