
CHAPTER 1 – CONDUCT OF THE INQUIRY

Background to the inquiry

1.1 The Financial System Inquiry March 1997 (Wallis Inquiry) described a changing financial landscape in which, amongst other developments, there is an increased focus on efficiency and competition. The report suggested that one of the results of these developments would be that high cost services and delivery channels would be subject to rationalisation.¹ It is clear from the rationalisation of bank branch networks and the introduction and proliferation of lower cost channels including ATMs and EFTPOS that this is indeed the case. The Wallis Inquiry recommended that *Governments should 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.*²

1.2 The Committee has been concerned for some time that the changes in the delivery of financial services are creating problems and uncertainty for many communities in regional and remote areas in Australia. The Committee considered that in addition to inquiring into the issues raised by Wallis, it would be appropriate to inquire into what the future held for individuals and small business people in regional and remote Australia in terms of access to financial services.

The referral of the inquiry

1.3 In October 1997 the Treasurer, the Hon. Peter Costello, MP, referred to the House of Representatives Standing Committee on Financial Institutions and Public Administration the terms of reference for an inquiry into the *alternative means of providing banking and like services to rural, regional and remote Australia to those delivered by the traditional bank branch.*

1.4 The reference was re-referred to the Economics, Finance and Public Administration Committee in the 39th Parliament on 3 February 1999.

Calling for submissions

1.5 The inquiry was advertised in the national media between 14 and 16 November 1997. Submissions were sought directly from a wide range of organisations and groups including:

- the financial services industry including banks, credit unions and building societies

1 Australia. Financial System Inquiry 1997. *Financial System Inquiry Final Report* (Wallis Report) p 6.

2 *ibid.* p 509.

- peak industry bodies including the Australian Bankers' Association (ABA) and the Credit Union Services Corporation (Australia) Limited (CUSCAL)
- Australia Post and Telstra
- the Reserve Bank of Australia, the Australian Competition and Consumer Commission, and the National Competition Council
- industry groups such as the Internet Industry Association
- Commonwealth, State and local governments
- rural and farmer organisations, such as the National Farmers' Federation, and the Country Womens' Association
- trade unions
- the Australian Pensioners' and Superannuants' Federation, the Australian Council of Social Services, and the Australian Small Business Association
- Members of Parliament and Senators.

1.6 The Committee received 157 submissions, as listed at Appendix 1 and 28 exhibits, as listed at Appendix 2.

Public hearings

1.7 The Committee endeavoured to hear from all sections of the community with an interest in the inquiry. An extensive program of hearings was developed for Canberra and all states and territories including a number of regional and remote areas. Hearings and witnesses are listed at Appendix 3.

1.8 Six volumes of submissions and 856 pages of transcript were produced. Copies of transcripts and volumes of submissions are available from the Committee Secretariat. Transcripts of evidence for the public hearings are available on the internet.

The inquiry as a catalyst for change

1.9 While this report makes a number of constructive recommendations, the very act of conducting an inquiry into this issue has already triggered a series of developments aimed at solving the problems associated with changes in the delivery of financial services in regional and remote areas. These developments demonstrate the value of the inquiry process and are documented in this report.

1.10 The inquiry prompted a broad and open discussion of the issues involved, and significantly raised the profile of some of the approaches already being taken to address issues that have been the focus of this inquiry including the establishment of

credit unions and community banks, third party agency arrangements and electronic agencies.

1.11 A number of rural communities, such as Herberton in Queensland, have made considerable progress towards resolving their banking problems. In these instances, the inquiry has played an important role in describing and promoting the strategies adopted by these communities. A wider understanding of such strategies will assist other communities facing similar problems.

1.12 The attitude of the banking industry to the problem has also changed during the conduct of the inquiry. The Australian Bankers' Association (ABA) was the first organisation to appear before the Committee in Sydney in February 1998. The attitude of the banking industry to the inquiry at the time was a largely defensive one. Prompted by public comments from the Chairman, by the time the ABA again appeared before the Committee in Canberra in July 1998, the banking industry had moved to a more pro-active position, with many banks proposing innovative solutions involving themselves and the community. These developments include the announcement by the industry of a package of measures including:

- a commitment to leave reasonable access to banking services when closing a branch in rural areas
- the adoption of a minimum uniform standard for rural and remote bank closures including six weeks prior notice of closures
- in the event of closures, face to face education and training for customers in alternative forms of banking
- consultation with local communities on the trends in the delivery of banking services
- active contribution to efforts by governments and communities to understand the factors involved in the decline of some small rural and remote communities
- greater use of mobile, specialist managers
- conduct of a trial to assess the feasibility of smartcards.³

1.13 Individual banks also made specific commitments. In July 1998 the ANZ 'announced a moratorium on rural branch closures and the allocation of \$10 million to develop and implement alternative ways of meeting the banking needs of people in rural areas which have been affected by branch closures'.⁴ In February 1999, it advised the Committee that it would extend its undertaking and made a commitment not to withdraw from any community in either metropolitan or regional Australia. It also advised the Committee that it would upgrade and extend its existing network of

3 *Transcript of evidence*, Canberra, 2 July 1998, pp 555-556 (Mr Aveling).

4 Submission no 146 , vol 6 , p 1194 (ANZ).

outside agents and that as part of this process would open new agents in about 30 locations, including towns where traditional branches had been closed.⁵

1.14 In November 1998, in announcing a \$300 million branch network upgrade, Westpac made a commitment to maintain the current overall level of branch numbers in the network and to leave a face-to-face transactional banking facility in every country town where it currently has a presence.⁶

1.15 While there has been a noticeable shift in attitude to the issues raised in this inquiry by most banks, progress has not been even. The Committee was particularly disappointed by the minimalist approach adopted by the National Australia Bank in terms of its participation in this inquiry, its apparent nonchalant response to the concerns raised by rural communities during the course of the inquiry and its apparent willingness to renege on undertakings given to a local council.

1.16 A further significant development that occurred during the course of the inquiry was the announcement by the Government of the Rural Transactions Centres Policy. The policy draws on many of the alternatives for providing services that have been aired during this inquiry. It allows for involvement of and cooperation between all parties. Many submissions identified these ingredients as critical to a speedy resolution of problems relating to access to financial services in regional and remote Australia.

1.17 The Local Government and Shires Associations of NSW have established a Banking Task Force to 'identify and evaluate options for the provision of appropriate banking and other financial services to meet the needs of communities and to identify the role councils can play in this process'.⁷ The Taskforce had its first meeting in December 1998 and will deliver an interim report to the NSW State Assembly of Local Government on 12 April 1999.

Scope

1.18 In accordance with the terms of reference, the Committee set out to examine the range of currently available alternative means of providing banking and like services in regional and remote Australia to those delivered through the traditional bank branch network, assess how well they are meeting the needs of regional and remote Australia, and to identify gaps in services and ways of filling them.

1.19 The Committee brought to the task the view that change is a constant and necessary feature of all active systems including the financial system. As stated by Walker et al. (1997) in an examination of the implications for regional Australia of the changes in the financial industry, 'in any episode of change there will likely be

5 Submission no 146, vol 6, p 1194 (ANZ).

6 Submission no 152, vol 6, p 1213 (Westpac.)

7 Submission no 151, vol 6, p 1212 (Local Government Association of NSW).

winners and losers.’⁸ The Committee’s intention has been to find pragmatic ways of ensuring regional and remote communities, at the very least, do not lose access to financial services and, in many cases gain improved access as a result of changes in the financial services industry.

1.20 Given that the inquiry was conducted against a backdrop of branch closures, it was not surprising that many of the submissions and evidence focused on this aspect of the changes. Branch closures have had serious consequences for many communities and the Committee has documented these in its report. The severity of the impact on communities demands that priority be given to developing alternatives that can be introduced as soon as possible.

1.21 However, it is also the Committee’s view that many of the problems are of a transitional nature. It is impossible to predict what form the delivery of financial services will take in five years, let alone ten years, but it is certain that financial services will be available in a vastly expanded array of outlets including supermarkets, pharmacies, newsagents, government service centres, post offices and telecentres. Although the introduction of smartcards seems painfully slow, it is also certain that the movement towards them will at some point swiftly pick up momentum and a life of its own. Once this happens, it will revolutionise our dealings in cash in a relatively short space of time, in much the same way that EFTPOS has impacted on accessing cash and purchasing goods and services.

1.22 In examining alternatives, therefore, the Committee has kept its eye to the future. It was frustrated in its efforts to get a firm handle on the state of play regarding some of the technological developments including smartcards and reverse EFTPOS mechanisms. This was primarily owing to the somewhat fragmented approach being taken within the industry and by other parties, including government departments, to developing these alternatives.

1.23 A range of strategies is needed to help equip communities in regional and remote Australia respond to the changes in the delivery of financial services. The strategies need to be geared towards the short and long term.

1.24 In referring the matter to the Committee, the Treasurer noted that while the focus of the inquiry would be on regional and remote Australia, the Committee would need to be cognisant of the wider implications of its recommendations for the review being undertaken by the Department of Social Security and others on alternative mechanisms for payments of public benefits.⁹ This review was part of the government’s response to the Wallis Report’s Recommendation 96. In addition to the Department of Social Security, the Review was to involve the Commonwealth Services Delivery Agency, the Treasury and the finance sector.

1.25 As Wallis pointed out, ‘the method by which governments make their own transfer payments could accelerate the development of alternative payment

8 Walker, G., Corby, D & Murphy, T. 1997, Finance restructuring: Implications for regional Australia, paper presented to the 15th Pacific Regional Science Conference Organisation, 8-12 December, p 1 (Submission no 7, vol 1, p 47).

9 Correspondence from Treasurer 16 October 1997.

instruments'.¹⁰ Given this, the Committee was disappointed to discover that the review does not appear to have made much progress.

1.26 **Recommendation (1)**

The Committee recommends that the Treasurer and the Minister for Financial Services and Regulation ensure that the Department of Social Security, in conjunction with the Commonwealth Services Delivery Agency, the Treasury and the finance sector, investigate and report on possible options for alternative payment instruments for government transfer payments as noted in the Government's response to the Recommendation 96 in the Wallis Report.

10 Australia. Financial System Inquiry 1997. *Financial System Inquiry Final Report* (Wallis Report), p 508.