CHAPTER 4

MANAGING BRANCH CLOSURES

4.1 The Australian Bankers' Association (ABA) acknowledged that the various forces at work shaping the provision of bank services have raised significant challenges for banks in satisfying the needs of their customers. It stated:

> In responding to the competitive pressures of meeting customer needs, banks have made substantial efforts to mitigate against the impacts of closures. The banking industry has given general self-regulatory undertakings on service levels. In March 2001, as part of a package of reforms, the ABA announced the adoption of the transaction services and branch closure protocol, which dealt with, in the main, concerns raised by the Hawker inquiry. There have also been moratoriums on further branch closures. A number of ABA member banks have now declared their branch rationalisation strategies at an end. BankWest, Bank of Queensland and Bendigo Bank, for example, are actually increasing branch numbers.[1]

Moratorium on closure and community reaction

4.2 A number of bank executives have conceded publicly that branch closures over the past years have tarnished the banks' image.[2] Mr Ian McFarlane, Chief Executive, ANZ, stated in a radio interview that in some sense he regretted the withdrawal of branches from the bush because of the damage it had caused to the community.[3] Likewise, Dr David Morgan, CEO, Westpac Corporation, acknowledged in a speech in August 2000 that branch closures had been unpopular decisions and community hostility had crystallized around them. He stated that closing a branch 'registers loudly and unambiguously' in the community.[4]

4.3 As noted in chapter 2, bank closures reached a peak in 1996 which provoked heavy and sustained criticism of the banks' apparent disregard of the interests of consumers.[5] Following this public outcry, some banks gave undertakings that they

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1 *Committee Hansard*, 14 November 2002, p. 61.

2 See for example, David Morgan, 'Securing Australia's Economic Potential', *Higgins Memorial Lecture,* address by Dr David Morgan, 10 February 1999, p. 12; David Morgan, CEDA Address, Committee for Economic Development of Australia, Sydney, 21 August 2000, pp. 6–7; statement by John McFarlane in 'Agency closures a thorn in the side of bank reputations', *Financial Review,* 13 April 2002 and Nicholas Way, 'The price of bank bashing', *Business Review Weekly*, 25 January 2001.

3 Transcript, 'Business Sunday', 27 October 2002.

4 Dr David Morgan, Chief Executive Officer, Westpac Banking Corporation, Committee for Economic Development of Australia, Sydney, 21 August 2000, pp. 7–8.

5 See for example comments by Mr Shaun McBride, Local Government Association of New South Wales, *Committee Hansard*, 25 February 2003, p. 152.

would not be closing branches in regional Australia or if they did so would ensure that some form of over-the-counter banking service was available.

4.4 In November 1998, Westpac 'drew a line in the sand' and announced its commitment to maintain face-to-face service in localities where it already had a presence.[6] The ANZ also suspended closures in 1998. It told the Committee that it was conscious of the impact a branch closure would have on a rural community and in recognition of its obligations, introduced a moratorium on withdrawing face-to-face services from any of the rural communities in which it operated. According to the bank, the moratorium has been enshrined as a 'promise' in ANZ's Customer Service Charter.[7]

4.5 In August 2002, the Commonwealth Bank announced that it would maintain the number of its branches around the level of 1,000 Australia wide, with roughly a third of those being located in rural and regional areas. Mr Hugh Harley, Commonwealth Bank, stressed that this was a 'watertight commitment' not to reduce traditional branch numbers below a thousand.[8]

4.6 Despite these various undertakings, a number of communities in regional Australia remain unconvinced by such assurances and worry about banks withdrawing from their district. Many local councils expressed heightened concern to the Committee about anticipated closures. They fear the likely deterioration of services and the erosion of the social and economic fabric of their community.[9]

4.7 Indeed, some communities have a sense of inevitability about losing their banks. The Northern Midlands Council stated that should the decision be made to close either or both banks, vast tracts, if not all, of the Northern Midlands would be left without banking facilities.[10] The Winton Shire Council stated that their real concern about the National Bank closure was a matter of 'when' not 'if'.[11]

4.8 The following table shows the number of outlets offering a branch level of service by the major banks, building societies and credit unions since 2001. The growth in the number of branches of the Bendigo Bank Limited is a notable feature which shows that it has been a significant factor in helping to maintain the level of

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6 Graham Jennings, *Committee Hansard*, 25 February 2003, p. 105. It would seem that this undertaking was not necessarily to retain the level of service but as explained by Westpac some branches were converted to in-stores. It maintained that throughout the period from 1998 Westpac had actually increased the number of locations in regional Australia. *Committee Hansard*, 25 February 2003, p. 110.

7 *Submission* 121, p. 3.

8 *Committee Hansard*, 25 February 2003, pp. 124, 129.

9 Many submissions to this inquiry refer to the community's apprehensions about branch closures. See for example Mr Shaun McBride, Local Government Association of New South Wales, *Committee Hansard*, 25 February 2003, p. 153.

10 *Submission* 21, p. 2.

11 *Submission* 27, p. 1. See also *Submission* 23, p. 1.

bank branches constant over the last three years. The Bendigo Bank is discussed in a separate section of this report which looks at community banks (see chapter 8).

Table 4.1—Major banks, building societies and credit unions—the number of outlets offering a branch level of service for 2001, 2002 and 2003.[12]

Institution	2001	2002	2003	Variation between 2001 and 2003
ANZ	755	728	729	-26
Bendigo Bank Limited	180	329	353	173
Commonwealth	1,053	1,008	1,004	-49
Elders	286	279	298	12
NAB	896	841	793	-103
St. George	387	2383	381	-6
Westpac	806	820	820	14
Bank of Queensland	93	96	116	23
Building Societies	328	313	308	-20
Credit Unions	1,028	957	939	-89

Background to the protocol for bank branch closures

4.9 Clearly, public disquiet about branch closures persists throughout regional Australia. In response to public disapproval, the ABA undertook to revise the Banking Code of Practice which now incorporates a provision for procedures to be adopted for bank branch closures.

4.10 In the following section, the report turns to this newly formulated bank branch protocol and assesses its adequacy in addressing some of the anxieties experienced by

12 These figures are taken from 'Banks: Channels offering a Branch Level of Service'; Building Societies: Channels offering a Branch Level of Service'; and Credit Unions: Channels offering a Branch Level of Service', APRA Points of Presence Database, 2001, 2002 and 2003. Unfortunately the statistics do not provide a breakdown by region for the major banks. There is a breakdown for building societies and credit unions according to location presented in Table 8.1.

those living in regional, rural and remote areas of Australia about the loss of bank branches.

Development of the bank branch closure protocol

4.11 In 1999, the House of Representatives Standing Committee on Economics, Finance and Public Administration, after inquiring into regional banking services, recommended that the banking industry formulate a branch closure protocol which would require banks to adopt specific procedures in the event of a branch closure. The Committee's report is known as the Hawker Report.

4.12 During 2000-2001, the ABA commissioned a review of the Code of Banking Practice which had been adopted in November 1993. During the review, numerous issues were raised about branch closures particularly in regional and rural Australia. The review recommended that the code should incorporate the proposals of the Hawker Report as a minimum standard to be adopted by banks.

4.13 On 12 August 2002, the ABA launched the new code of banking practice with a view to its adoption by the banking industry by August 2003. Banks adopting this code of practice are 'to comply with the ABA's protocol on branch closures, as published by the ABA from time to time'.[13] By October 2003, seven banks had adopted the code. As banks sign on to the code they are added to the list located on the ABA's website.[14]

4.14 The accompanying table sets out the recommendations made by the Hawker inquiry in 1999, the Government's response to the recommendations and the provisions in the newly drafted ABA's branch closure protocol. While the Government agreed with the broad thrust of the Hawker recommendations, it rejected some suggestions. In drafting its branch closure protocol, the ABA acknowledged the findings of the Hawker Report but as with the Government stopped short in adopting the recommendations in full.

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13 Australian Bankers' Association, Media Release, 'New Code of Banking Practice', 12 August 2002 and *Code of Banking Practice,* Launch publication, August 2002.

14 *Supplementary Submission* 117, p. 12.

Table 4.2—The Hawker Inquiry recommendations on branch closures, the Government response and the ABA's Transaction Services and Branch Closure Protocol

Hawker recommendation no 20	*Government response*	*Branch closure protocol*
The industry adopts a branch closure protocol.	The Government supports the committee's recommendation that the financial service industry should adopt a branch closure protocol which provides a guideline of the minimum standards of service delivery in the event of closing regional and remote branches.	
Banks will give three months notice to customers and relevant community organisations such as the Local Councils of intention to close a branch.	Such a protocol should include industry providing adequate notice of intended branch closures and consulting with communities.	Where a bank intends to close a rural and remote branch, the bank will give a minimum 12 weeks written notice prior to the closure, to customers of the branch and relevant community organisations, including local government.
Banks will consult with local communities about trends in the delivery of banking services particularly about developments that have the potential to affect the delivery of services in that region. Included in this will be a genuine desire to use community goodwill to improve the viability of the branch. In the event of a decision to close a branch, banks will consult with the community about preferred options for alternative services and on the training to be provided in using alternative channels.		Where a bank gives notice of the closure of a rural or remote branch, it will offer customers face to face education training and assistance to help them adjust to changes in the way they access their banking service.
Banks will provide written notice of at least two months before changing the branch that manages an account (also recommendation no. 3).	The ABA advised that the notion of accounts being domiciled at a particular branch is outdated. Accounts are no longer managed by branches, but rather by central processing houses that are responsible for all of the accounts held with the financial service organisation.	

Hawker recommendation no 20	***Government response***	***Branch closure protocol***
	On this basis, the ABA advised that providing information to customers about where information relating to their account is held is irrelevant to the issue of branch closures.	
In the event of closing or downgrading a branch below agency status, banks will waive any fees or penalties incurred relating to early repayment of loans or closing of accounts. (also recommendation no. 17)	The Government does not believe that financial service providers regularly charge customers fees for closing accounts other than where necessary to recover the economic costs of breaking fixed deposit or loan contracts. In any case, the nature of fixed term deposits and loans is such that customers do not generally need to interact with the financial services provider regularly and, therefore, would not need to close these accounts if a nearby branch closed.	
In the event of closing a branch, banks will be expected to leave behind some form of over-the-counter service that allows access to cash deposits and withdrawal facilities for personal and small business customers	The Government, in particular, wishes to see the financial services industry give some assurances that an ongoing face-to-face service that provides cash deposits and cash withdrawal facilities for personal and small business remains locally available where viable.	Where it is commercially viable to do so, a bank closing rural or remote branch will ensure that ongoing face to face access is locally available to its services, which provide cash deposit and cash withdrawal facilities for personal and small business customers. Where it is not commercially viable for a bank closing a rural or remote branch to provide local ongoing face to face services, which provide cash deposit and cash withdrawal facilities for personal and small business customers, the bank will inform its customers about accessing its alternative services.

The preamble to the branch closure protocol states that the protocol is consistent with the view of the Hawker Report that the industry should develop a minimum standard of service delivery as a guideline for banks in the event of closing rural and remote branches.

4.15 It should be noted that while agreeing with the general principle that minimum standards of service delivery should be set down in the event of branch closures, the protocol is a watered down version of the recommendations made by the Hawker Inquiry. There are notable omissions from the protocol which also includes a number of qualifications that narrow the application of some of the undertakings proposed in the Hawker Report.

4.16 The following section examines the new protocol and the undertakings that it contains. It does not deal with them in the order in which they are set out in the protocol but rather starts with practices to be adopted at the notification stage, measures to be followed after notification, and perceived omissions from the protocol.

Notice of intention to close branch

Period of notice

4.17 The undertaking contained in the branch closure protocol that deals with notification of a branch closure reads:

> Where a bank intends to close a rural and remote branch, the bank will give a minimum 12 weeks written notice prior to the closure, to customers of the branch and relevant community organisations, including local government.[15]

4.18 The Protocol adopted the Hawker recommendation on this matter with the added proviso that the notice be in writing.[16]

4.19 Even so, not all groups were satisfied with this undertaking. The submission by the New South Wales Government to the Review of the Banking Code of Practice thought that six months notice of closure should be given in the case of a branch in a non-metropolitan area which is the last remaining branch.[17] A number of witnesses to this Committee also wanted the protocol to go further than the Hawker Report and

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15 Australian Bankers' Association, The Transaction Services and Branch Closure Protocol, http://www.bankers.asn.au/ABA/adminpages/AdminViewAnArticle.asp?ArticleID=139 (16 January 2003).

16 House of Representatives Standing Committee on Economics, Finance and Public Administration, *Regional Banking Services: Money too far away*, Recommendation 20, March 1999, p. 103.

17 Richard Viney, *Review of the Code of Banking Practice,* Issues paper, RTV Consulting Pty Ltd, Melbourne, February 2001, p. 35. The Department of Finance, Canada, proposed that federal deposit-taking institutions provide four months' notice of branch closures to customers, but where there were no other financial institutions within a 10-kilometre radius they would be required to provide six months' notice of closures. *Reforming Canada's Financial Services Sector: A Framework for the Future*, June 1999, p. 51.

would like to see a more generous notification period. The Finance Sector Union of Australia called for a stronger protocol for branch closures containing a minimum six month period of notice.[18] The Holroyd City Council and the Rosalie Shire Council likewise suggested that at least six months' notice should be given before any bank closure.[19]

4.20 In response to a query from the Committee about the time-frame for notification of a bank closure, the ABA explained that the 12-week period was agreed to in the context of an undertaking that was given to leave behind over-the-counter services. As explained by Mr Stephen Carroll, ABA, 'it is not that there will be 12 weeks and then nothing left there for customers to transact with'.[20] The CEO of the ABA, Mr David Bell, told the Committee that experience had shown three months to be an adequate period.

4.21 In a follow-up written response, the ABA informed the Committee that the banks had reviewed the notice period and had found that the branch closure protocol was working well and in their opinion there was no apparent need to change its provisions.[21]

4.22 The Committee accepts that a 12-week period of notification is adequate if customers are able to make a seamless transfer from the branch to be closed to an agency or similar facility offering over-the-counter services. The situation is entirely different where no such facility would be available. Local business in particular should be allowed sufficient time to rearrange their affairs particularly regarding matters such as switching loan accounts and managing new cash flow requirements.

4.23 It should also be noted that a substantial amount of time is required to finalise arrangements should another financial institution or sponsor, such as a credit union or coalition of businesses, decide to replace the departing bank. As later chapters show the feasibility studies and planning alone needed in preparation for establishing an alternative facility can be a lengthy process.

4.24 Any delay in the installation of a fully operational facility would be felt most keenly by local businesses that have special needs such as cash deposits. There is also the increased likelihood of business confidence suffering in the town and local residents taking their custom to larger, better-served centres before a satisfactory substitute could be established. In cases where the closure of a branch leaves a

18 *Submission* 69, p. 2.

19 See for example, Mr Clinton Weber, *Committee Hansard*, 22 May 2003, p. 467, who pointed out that people need time to make different arrangements. Also, Mr Richard Brittain and Mrs Zerbst, *Committee Hansard*, 22 May 2003, pp. 484–5 who suggested 12 months notice in a one bank town. Mr Brittain stated that it takes between nine and twelve months to get a community bank up and running.

20 *Committee Hansard*, 14 November 2002, p. 66.

21 Australian Bankers' Association to Committee, 20 December 2002.

community including local businesses without adequate banking services, the Committee believes that a 12-week notification period is insufficient.

4.25 The Committee recommends that in cases where the branch is the last branch in town and because of commercial reasons an over-the-counter facility would not be available to cater for the needs of residents and local business the period of notification should be extended to at least six months. Furthermore, the Committee recommends that banks undertake to assist business and the community to find a satisfactory solution to their banking needs. Such a commitment would go some way to alleviating anxiety and providing a degree of certainty and reassurance to communities who fear the closure of a bank branch.

Consultation

4.26 On the matter of consultation, the ABA clearly departed in its branch closure protocol from the Hawker Report which recommended that:

> Banks will consult with local communities about trends in the delivery of bank services particularly about developments that have the potential to affect the delivery of services in that region. Included in this will be a genuine desire to use community goodwill to improve the viability of the branch. In the event of a decision to close a branch, banks will consult with the community about preferred options for alternative services and on the training to be provided in using alternative channels.[22]

4.27 The Government endorsed in general terms the recommendation of the Hawker Report on the importance of consulting with the community. Under the current protocol, however, community consultation is not stipulated. The code merely requires the bank to inform its customers about accessing its services and to notify the community about the intention to close a branch after the decision has been made.[23]

4.28 This provision falls far short of public expectations in that it does not facilitate engagement or encourage dialogue between the bank and its customers. The use of the word ‘inform’ fails to provide assurance that the banks will listen to the concerns of their customers and the community.

4.29 Indeed, a number of submissions expressed concerns about the omission from the protocol of any undertaking by banks to consult with their customers and the community about their intention to close a branch. For example, the Holroyd City Council condemned the lack of public consultation and called for a banking protocol that requires extensive community consultation.[24]

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22 House of Representatives Standing Committee on Economics, Finance and Public Administration, *Regional Banking Services: Money too far away,* Recommendation 20, March 1999, p. 103.

23 *Submission* 119, p. 13.

24 *Submission* 18, p. 3.

4.30 The NFF stated succinctly that 'Instead of notice, we would like to see consultation, which is a bilateral rather than a unilateral thing'.[25] Mr Charles Burke clearly understood that 'Notice to be given' means that the banks are 'telling you when it is closing'. The NFF would rather see a consultative approach.[26]

4.31 Taking up this same point, Mr Anthony Beck, Finance Sector Union of Australia, maintained that banks have an obligation to provide proper forewarning of a closure and to allow local communities to respond. Mr Tim Moore agreed. He referred to the recent closures of 56 of the National's agencies where it was announced that there were going to be closures in one week. He interpreted this behaviour from the bank to mean: 'We don't care what response you're going to have to that. We're going to close in these locations'. He went on to say:

> Any kind of signalling and allowing customers to respond and allowing them mechanisms where, in small towns, they can network, as is allowed in community banking, will make that easier, because I might make a different decision when I can talk to a wider range of people in that community than if I were to make choices on what would be most convenient and cheapest for me. [27]

4.32 The ABA, however, was satisfied that there was a clear presumption that consultation would take place in the event of a proposed branch closure. Mr David Bell, stated that prior 'to a bank making a decision to close a branch, it obviously conducts a fairly detailed study which includes consulting and speaking to customers'. He acknowledged, however, that each bank has its own approach.[28]

4.33 When asked further about his understanding of a consultation process, Mr Bell replied:

> Consulting implies that you are going to actively listen and act upon people's views. When banks go through the process of making a decision like this—and each has its own way of doing things—they would necessarily speak to their customers and weigh up the effects on their customers, and that would be, as far as they are concerned, the most appropriate way of doing it. If you introduce an element of strict consultation to the process, you may end up dashing people's hopes. So I think we would prefer to leave it as it is.[29]

4.34 The banks are certainly aware of the importance to the community of consultation. Mr Ian MacDonald, the National, told the Committee:

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25 Michael Potter, *Committee Hansard*, 14 November 2002, p. 49.

26 *Committee Hansard*, 14 November 2002, p. 50.

27 *Committee Hansard*, 26 February 2003, p. 263.

28 *Committee Hansard*, 14 November 2002, p. 65.

29 *Committee Hansard*, 14 November 2002, p. 74.

> We have learned a lot from feedback from our own people and from the communities and our customers that a longer period of consultation may enable something to be done and at least forewarn people of what may be about to happen. That has got to be taken on board.
>
> …
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> We are certainly happy to commit to consultation.[30]

4.35 Westpac provided the Committee with an example of the benefits of consultation with the community which the Committee believes should stand as a model for all ADIs when confronted with a situation where a local economy can no longer support a full bank branch. It cited the case of Whitemark, Flinders Island, where Westpac, because of a decline in the demand for its banking services, decided to convert the existing branch to an In-store facility. Following extensive consultation with the community including a town meeting, the Regional Manager wrote to all local customers outlining the changes and enclosing a voting slip for them to indicate whom they would prefer as the proprietors of the proposed In-store facility. It stated that after the votes were tallied and the proprietorship settled:

> Work commenced shortly thereafter to construct an alternate entrance to the existing post office and to fit out the premises with a Westpac In-store. This provided a confidential environment away from the day to day business of the Post Office.[31]

4.36 In this case, the bank not only consulted with the community but worked alongside it to find a satisfactory solution.

4.37 The Committee accepts that a code of practice cannot prescribe the degree and extent of public consultation that banks should undertake when deciding to downgrade their services. The code can, however, state unequivocally that consultation will take place and it can in general terms state that banks will in good faith facilitate the transition from one service channel to another.

4.38 The Canadian Government recognised the importance of community consultation by conferring on an independent regulatory body, the Financial Consumer Agency, the discretion to convene a consultation if there were concerns that a rural closure was taking place with insufficient consultation.[32] The Committee sees

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30 *Committee Hansard*, 27 February 2003, p. 305.

31 *Submission* 110, p. 15.

32 Department of Finance, Canada, *Reforming Canada's Financial Services Sector: A framework for the Future*, June 1999, p. 51. The legislation provides that after notice is given but before the branch is closed or ceases to carry on the activities, the Commissioner [head of the Financial Consumer Agency of Canada] may, in prescribed situations, require the bank to convene and hold a meeting between representatives of the bank, representatives of the Agency and interested parties in the vicinity of the branch in order to exchange views about the closing or cessation of activities.' *Consumer Provisions under FCAC Supervision,* Banks/Foreign Banks (Schedule I & II) Authorized Foreign Bank Branches, June 2002.

merit in this proposal as a sensible means of ensuring that banks engage in direct and genuine consultation with their customers and the community and believes it warrants serious consideration.

4.39 For the moment, however, the Committee strongly urges the banks to incorporate into their branch closure protocol an undertaking to develop a comprehensive community consultation program that would include open discussions about the future services to be provided by the bank. Such a program would be designed to keep the community informed about the bank's prospects and to involve them in planning for the longer term. It would ensure that a full public review takes place before a branch is closed. Consultation clearly means engaging the community before decisions are taken and should be so stipulated in a branch closure protocol.

The transition period

Education and training

4.40 The undertaking contained in the branch closure protocol dealing with the period following the announcement of the branch closure reads:

> Where a bank gives notice of the closure of a rural or remote branch, it will offer customers face to face education training and assistance to help them adjust to changes in the way they access their banking service.[33]

4.41 This clause is consistent with the Hawker report which recommended that in the event of closing a branch, banks provide face-to-face education and training for customers and the community in alternative forms of banking.[34]

4.42 The Committee would prefer the protocol to be framed in terms that provide greater certainty that customers will receive adequate training and assistance in the use of alternative methods. The discussion on training for electronic banking in chapter 13 and for older Australians in chapter 14 details the dissatisfaction with, and the inadequacies of, the current education and training programs and underscores the need for improved education programs.

4.43 In the light of the criticism about the commitment of the banks to education and training, the Committee recommends that the provision include some practical guidance for banks as to the measures they should adopt to assist their customers adjust to new banking arrangements. Examples could include making an officer available in the town for three months after the closure to help customers use new service channels or putting in place a toll-free dedicated help line for the sole purpose

33 Australian Bankers' Association, The Transaction Services and Branch Closure Protocol, http://www.bankers.asn.au/ABA/adminpages?AdminViewAnArticle.asp?ArticleID=139 (16 January 2003).

34 House of Representatives Standing Committee on Economics, Finance and Public Administration, *Regional Banking Services: Money too far away,* Recommendation 20, March 1999, p. 103.

of offering assistance and advice to customers who have lost the service of a bank branch (see recommendations 17, 18 and 19).[35] The branch closure protocol should also contain a commitment by the banks to maintain close liaison with community organisations particularly local councils to ensure that on-going training and support is available.

Services available after branch closure

4.44 The undertaking in the bank branch closure protocol dealing with the services to be made available after a branch closure reads:

> (a) Where it is commercially viable to do so, a bank closing a rural or remote branch will ensure that ongoing face to face access is locally available to its services, which provide cash deposit and cash withdrawal facilities for personal and small business customers.
>
> (b) Where it is not commercially viable for a bank closing a rural or remote branch to provide local ongoing face to face services, which provide cash deposit and cash withdrawal facilities for personal and small business customers, the bank will inform its customers about accessing its alternative services.[36]

4.45 The Hawker Report recommended in unequivocal terms that in the event of closing a branch, banks be expected 'to leave behind some form of over-the-counter service that allows access to cash deposit and withdrawal facilities for personal and small business customers'.[37] In part, the Government's response agreed with this recommendation but added the proviso 'where viable'.

4.46 The Branch Closure Protocol while broadly supporting the Hawker Report's recommendation adopted the approach taken by the Government and has clearly placed the qualification 'where it is commercially viable' on the requirement to provide face–to–face banking services.

4.47 The National Farmers Federation (NFF) was highly critical of the hazy terms used in this undertaking. In particular, it maintained that the requirement that face-to-face services be maintained only where 'commercially viable' was vague and could really mean anything. It noted that there was no guarantee that the bank would explore other options, including agencies or co-located branches. Mr Michael Potter explained that the NFF would like more certainty in that provision.[38]

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35 The recommendations are found on pp. 207–8 and 228.

36 Australian Bankers' Association, The Transaction Services and Branch Closure Protocol, http://www.bankers.asn.au/ABA/adminpages/AdminViewAnArticle.asp?ArticleID=139 (16 January 2003).

37 House of Representatives Standing Committee on Economics, Finance and Public Administration, *Regional Banking Services: Money too far away,* Recommendation 20, March 1999, p. 103.

38 *Committee Hansard*, 14 November 2002, p. 49.

4.48 When asked about the meaning of the expression 'commercial viability', Mr Bell conceded that there was an element of 'open-endedness' in the term but that was the best the ABA could do in formulating the code.[39]

4.49 The Committee understands that the phrase 'where it is not commercially viable' is subject to wide interpretation and could provide a convenient escape route for banks wishing to avoid the responsibility of having to provide face-to-face access to its services. Nonetheless, the Committee is cautious about imposing an unwarranted constraint on the ability of a bank to adjust to changing circumstances by requiring it, regardless of the commercial circumstances, to guarantee that some form of over-the-counter service be made available. It accepts the qualification as it now stands in the closure protocol but believes that safeguards must be in place to ensure that banks do not leave their customers without assistance and guidance in finding a satisfactory substitute for the loss of a branch service.

4.50 In this regard, the Committee has serious concerns about the second part of this undertaking which covers circumstances where it is not commercially viable for a bank to provide over-the-counter services in the event of a branch closure. This undertaking stipulates that the bank 'will inform its customers about accessing its alternative services'. Firstly, the undertaking is redundant in that the protocol already requires a bank to offer its customers face-to-face education, training and assistance to help them adjust to changes in the way they access their banking service. Presumably this undertaking would include informing customers about using its alternative services. Secondly, the use of the word 'its' is far too narrow. The Committee believes that a bank withdrawing services from a community should not limit its advice to the services <u>it</u> provides but should take a broader view of the customers' interests and inform customers and community organisations of the full range of banking services available to the community.

4.51 Furthermore, the Committee believes that the banks have a responsibility to work closely and actively with their customers and the community in finding alternative solutions to the banking needs of the community. The Committee recommends that this undertaking in the protocol be redrafted to stipulate that in the event of a branch closure the relevant bank will cooperate fully with the community to explore all possible options in working out an acceptable banking alternative for the area.

Portability of accounts—costs associated with transferring accounts

4.52 A few submissions noted what they believed to be significant deficiencies in the protocol. The NFF was concerned about some omissions such as provisions covering the costs of transferring an account from a branch that has closed. It would like to see costs associated with switching accounts reduced or waived. Mr Potter

39 *Committee Hansard*, 14 November 2002, p. 74.

explained that it is certainly not the customer's fault that a branch is closing and 'we would not like to see costs being imposed upon the customer when that does occur'.[40]

4.53 The Weddin Shire Council also expressed concerns that customers of a closed branch often find they cannot easily transfer their accounts to one of the remaining banks because of the need to pay fees for closing accounts and transferring loans and mortgages.[41] Along similar lines, Councillor David Lykke, Barossa Council, stated:

> When people attach themselves to a bank, and are financially committed with a mortgage, overdraft or otherwise, there are penalties in place if they want to get out of that bank. That kills off any effective competition.[42]

4.54 While the Australian Competition and Consumer Commission (ACCC) has done some work on switching or transaction costs for banking services, it recognised that there has not been a lot of actual econometric work done, particularly in Australia. Nonetheless, it assumes that switching costs are relatively high. This assessment is based partly on anecdotal evidence and partly on confidential information regarding churn accounts and estimated churning in terms of a couple of hypothetical mergers. Overall, the ACCC was of the view that unless some change is made, consumers who are forced to move from one bank to another will face unreasonable costs.[43] It made the point, however, that it had not come across anything in terms of the transaction or switching costs which runs foul of the trade practices legislation.[44]

4.55 This matter of costs and charges was considered in the Hawker Report which recommended that in the event of closing down or downgrading a branch below agency status, banks waive any fees or penalties incurred relating to early repayment of loans or closing of accounts.[45]

4.56 The Government rejected this recommendation. In its response to the Report, it stated that it did not believe that financial service providers regularly charge customers fees for closing accounts other than where necessary to recover the economic costs of breaking fixed deposit or loan contracts. It explained further:

> …the nature of fixed term deposits and loans is such that customers do not generally need to interact with the financial services provider regularly and, therefore, would not need to close these accounts if a nearby branch closed.

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40 *Committee Hansard*, 14 November 2002, p. 49.

41 *Submission* 64, p. 1.

42 *Committee Hansard*, 13 March 2003, p. 412.

43 Mark Pearson, *Committee Hansard*, 27 February 2003, p. 325.

44 Brian Cassidy, *Committee Hansard*, 27 February 2003, p. 326.

45 House of Representatives Standing Committee on Economics, Finance and Public Administration, *Regional Banking Services: Money too far away,* Recommendation 20, March 1999, p. 103.

> The Government accepts that as part of the normal commercial arrangements between a financial service organisation and its customer, it may be necessary to impose fees on customers to recover costs in the situation where the closing of that account results in a breach of a loan contract.[46]

4.57 Mr Richard Viney, who conducted the review of the Code of Banking Practice, questioned the correctness of the Government's response. He claimed that it overlooked common business practices. He wrote:

> …if the customer has to close the current overdraft account and take that to another institution in order to maintain ready access for daily banking purposes, it is highly likely that the willingness of the transferee institution to provide an equivalent overdraft facility will be dependent on the customer also transferring the fixed term deposits and refinancing the housing loan, especially if the customer has considerable equity in the house.[47]

4.58 The ABA, however, saw no need to address this matter of costs and fees associated with switching accounts. Representatives from the ABA told the Committee they were not aware of fees and charges being imposed with closing and opening accounts. Mr Carroll noted that with an account such as a term deposit, there are 'economic costs for breaking those loans' adding that there would be costs incurred but at the choice of the customer. Mr Bell also pointed out that with an account that has a period to run there was no reason for the customer not to maintain that term deposit with that bank.[48] Representatives from the ABA did not refer to the difficulty and costs involved in unravelling a package of accounts held with the one bank. They preferred to argue that the fixed rate facility and rates and term deposits can run to their natural maturity.

4.59 The Committee believes that transferring accounts is not as easy as suggested by the banks. When it comes to branch closures, the Committee is of the view that customers in country towns should not bear any cost or penalty in switching accounts as a direct consequence of the closure of their local bank branch.

4.60 In the context of branch closures, the costs of transferring or renegotiating a mortgage are of particular concern to the Committee. According to a number of witnesses, the matter of mortgage arrangements is a significant obstacle to switching accounts. Mr Ian MacDonald, National Australia Bank, told the Committee that the

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46 Commonwealth Government Response to the Recommendations of the House of Representatives Standing Committee on Economics, Finance and Public Administration (the Hawker Committee) Inquiry into Regional Banking Services, 28 June 2000, pp. 8–9.

47 Richard Viney, *Review of the Code of Banking Practice,* Issues paper, RTV Consulting Pty Ltd, Melbourne, February 2001, p. 36. Mr Viney went on to state, however, that it may be undesirable to attempt to give effect to the Hawker recommendation in the Code of Banking Practice 'because any workable guidelines about waivers may well need to contain significant flexibility and thus not lend themselves to incorporation into a Code'.

48 *Committee Hansard*, 14 November 2002, pp. 66–7.

largest impost on any customer changing from one bank to another is mortgage stamp duty.[49] Mr Gregory Gillett, Bendigo Bank, agreed. He stated that customers certainly see the stamp duty costs as an imposition that can amount to thousands of dollars for a medium-sized business.[50]

4.61 Mr Gillett told the Committee that the Western Australian Government took the view that in order to give community banks their best chance of success, they would actually remove stamp duty on the transfer of the banking business on mortgages and the like.[51] The ABA explained further that this scheme is the Western Australian Government's Regional Bank Tax Relief Scheme which was introduced from 1 February 2003. According to the ABA, the scheme, which previously applied to community banks, now 'provides relief from debt taxes and stamp duty, on the transfer of a mortgage or the refinancing of borrowings, when a customer transfers bank accounts where it is the result of a branch closure in a regional community'.[52] The ABA was not aware of any other State government schemes. Mr Samuel Smith, Gladstone Community Development and Tourism Association, mentioned that the BankSA offers an exemption of stamp duty on transfer of loans where there is not a branch in that town.[53]

4.62 Mr Bell indicated that circumstances covering transactions involving mortgage establishment fees and early pay-out on a mortgage where the bank has closed are not covered in the protocol and he would speak to his members about the matter.[54] Mr Ian MacDonald, National Australia Bank, suggested that it is a matter for governments rather than banks.[55]

4.63 In its response to the Hawker Inquiry, the Commonwealth Government included advice from State and Territory governments regarding the charging of stamp duty on refinanced loans. It shows that the various governments offer a range of concessions or exemptions on stamp duty on mortgages (see appendix 3).

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49 He stated further 'the single biggest reason for people saying that they cannot shift from one bank to another is that the cost of stamp duty is going to be so large. There are account fees for new loans, but not for transactional accounts'; and 'If my choice was to move across, stamp duty would be the biggest hindrance. I guess that is a matter for governments rather than for banks', *Committee Hansard*, 27 February 2003, pp. 318–19. As well the RBA has raised a suggestion that State imposed Stamp Duties may result in an additional cost for switching providers if loans have to be re-financed. See KPMG Consulting, *Small Business Banking in Australia*, A Research Report, February 2002, p. 31.

50 *Committee Hansard*, 27 February 2003, p. 338.

51 *Committee Hansard*, 27 February 2003, p. 338.

52 *Supplementary Submission,* 117, p. 15.

53 *Committee Hansard*, 13 March 2003, p. 435.

54 *Committee Hansard*, 14 November 2002, p. 68.

55 *Committee Hansard*, 27 February 2003, pp. 318 and 319. and see footnote 47 above.

4.64 The Committee accepts that a customer living in a country town compelled to transfer a mortgage because of the closure of a bank branch should not bear the unnecessary and unfair imposition of paying stamp duty or other costs associated with transferring a loan account. It notes the Government's response to the Hawker Inquiry that the States and Territories, at least partially, provide exemptions from state duties. This information does not seem to accord with the evidence before this Committee which indicated that stamp duty was a major cost in transferring a mortgage from one financial institution to another. The Committee believes that both the banking industry and the relevant state governments should clearly identify the costs imposed on a customer transferring a mortgage from one financial institution to another and consider measures to remove such penalties where the costs derive directly from a branch closure in a non-metropolitan town.

Recommendation 1

The Committee recommends that the State and Territory governments and the banking industry work together to establish the exact costs to a customer in transferring a loan from one institution to another as a direct result of a branch closure in rural, regional and remote Australia. Further that they introduce measures to exempt such customers from stamp duty and other associated costs when transferring a loan to another financial institution as a direct result of their bank closing a bank branch.

4.65 The Committee adheres strongly to the view that in the event of a branch closure in a country town, customers of that bank should not bear any costs when transferring accounts and most definitely not any cost, fee or charge of an administrative nature.

Recommendation 2

The Committee recommends that in the event of a bank closing a branch in a non metropolitan area and where another branch is not readily accessible that the bank waive any fees or penalties incurred by a customer closing an account, including a loan account, or transferring the account to another institution as a result of the branch closing.

The Committee also recommends that the ABA incorporate this waiver of transfer fees on closure of a branch into the Transaction Services and Branch Closure Protocol.

Other disincentives to switching accounts

4.66 Aside from the regulatory cost with stamp duty and similar imposts, customer surveys by the Bendigo Bank show the other key difficulty facing customers in transferring accounts is 'the rigmarole the bank makes them go through in changing'.[56]

4.67 The KPMG research report, *Small Business Banking in Australia*, noted that there are costs to switching banks which apart from the time taken to find a new supplier, include 'risks that complex transactions may not be transferred smoothly from one provider to another'. [57]

4.68 A number of witnesses cited instances where they believe the banks frustrate the transfer of business to another service provider.[58] The Manilla Shire Council highlighted problems such as clients being unable to transfer their money from the Post Office to their banking institution's branch because no pin numbers were supplied to clients by the particular banking institution.[59] It maintained that these major financial institutions have not gone to the trouble of educating their members regarding services that are available.

4.69 The costs, delays and effort involved in switching accounts also have implications for service providers wishing to enter the market or expand their services. This matter is taken up in the broader context of barriers to entry which is discussed in chapter 8.

4.70 Apart from the costs associated with transferring a mortgage, the general and anecdotal nature of the complaints about penalties incurred and trouble experienced when switching an account makes it difficult for the Committee to be specific in formulating any recommendations. Without doubt many witnesses assumed that there are extra costs, fees and delays in switching accounts from one provider to another.

4.71 The Committee believes that banks should expedite the transfer of documents or information needed by a new provider. It recommends that the banks incorporate in their protocol on branch closure a general undertaking that in the event of a branch closure they will facilitate to the best of their ability the transfer of a customer's business from their institution to another should the customer decide to switch allegiance.

Omissions from protocol

Notice before changing the branch that manages the account

4.72 The protocol made no reference to the Hawker recommendation that banks provide written notice of at least two months before changing the branch that manages

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56 Gregory Gillett, *Committee Hansard*, 27 February 2003, p. 338.

57 KPMG Consulting, *Small Business Banking in Australia*, A Research Report, February 2002, p. 31.

58 See for example, *Submission* 64, p. 1.

59 *Submission* 91, p. 1.

an account (Hawker recommendations nos. 3 and 20). The Government responded to this recommendation by citing advice from the ABA which stated:

> …the notion of accounts being domiciled at a particular branch is outdated. Accounts are no longer managed by branches, but rather by central processing houses that are responsible for all of the accounts held with the financial service organisation. On this basis, the ABA advised that providing information to customers about where information relating to their account is held is irrelevant to the issue of branch closures.[60]

4.73 Mr Richard Viney, who reviewed the banking code of practice, took issue with this assessment which he thought was inaccurate. He maintained:

> While it may be that accounts are no longer managed by branches but rather by central processing houses, the fact remains that certain records vital to customer access to their accounts are still kept in branches.[61]

4.74 He cited in particular the account holder's signature without which a branch may refuse to process certain transactions and bank fee schedules which differentiate the fee charging purposes between a service provided within the home branch and the same service provided at the customer's request at a different branch.

4.75 No mention of transferring accounts to another branch without notifying the customer was made during the inquiry. Councillor Burgess did, however, mention it in the context of possible branch closure. He told the Committee:

> The other thing to remember is that some have tried to manipulate bank closures and have not been successful. For example, the NAB here in Jamestown moved major accounts into Clare. The people with the accounts suddenly wondered what was going on and said: 'Hang on. We want our accounts moved back to Jamestown.'
>
> The branch was still here but all of a sudden these people started to notice that their accounts had 'Clare' on them and 'ring this number' and they did not know why. They just rang up and asked why they were now in Clare. They were told that they thought it would be more convenient as it was a general branch or something. It was never said that they were going to close, but you can only presume that that is what they were perhaps working towards.[62]

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60 Commonwealth Government Response to the Recommendations of the House of Representatives Standing Committee on Economics, Finance and Public Administration (the Hawker Committee) Inquiry into Regional Banking Services, 28 June 2000, p. 8.

61 Richard Viney, *Review of the Code of Banking Practice*, Issues paper, RTV Consulting Ltd, Melbourne, February 2001, p. 36. He noted that the obvious record is the account holder's signature.

62 *Committee Hansard*, 13 March 2003, p. 438.

4.76 Similarly, the Weddin Shire Council suggested that banks manipulate their viability by transferring business accounts or loans to larger regional centres, and then claim that the branches were uneconomical to maintain.[63]

4.77 The Committee believes that on courtesy grounds alone and in the interest of promoting customer awareness banks should give prior notice of any such intention to move accounts and the reasons for doing so. To the banks it may be a simple and unimportant administrative arrangement but to customers it is an important matter of being adequately informed about their banking business.

Community impact statement

4.78 Some submissions wanted the banks to adopt far more stringent procedures for branch closures. The Rosalie Shire Council suggested that banks should be required to substantiate their reasons for closing any branches in rural or remote areas to the Banking Industry Ombudsman.[64] The Northern Areas Council recommended that where banks intend to close a rural branch they should be required to prepare a community impact statement setting out the effects of such action on the community. It also suggested that there should be fee rebates for communities losing a bank branch.[65] The Finance Sector Union of Australia also believed that a community impact statement should be part of this protocol.[66]

4.79 The Committee sees merit in a bank preparing a community impact assessment when withdrawing its services from a country town and recommends that such an undertaking be incorporated in the branch closure protocol. Banks are uniquely placed because of their expertise, knowledge of the customers and understanding of the economic life of the community to facilitate the transition for customers from one form of financial service provider to another. If adopted, this procedure would make banks more accountable for their decisions and provide vital information for all stakeholders involved—the bank, its customers and the community it serves. It would provide a clear demonstration of the bank's awareness of the effects of its decision on its customers and provide a solid base of information to help the community understand the economics behind the decision and to plan more realistically for alternative arrangements. It would promote informed debate and be the focal point for community consultation. Such a statement would also provide a valuable start for communities considering the range of options open to them as a substitute for the loss of the branch.

4.80 The ABA does not support banks being required to prepare a community interest statement when considering closing a bank.[67] The Committee, however, does

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63 *Submission* 64, p. 1.

64 *Submission* 16, p. 1.

65 *Submission* 34 , p. [3].

66 *Submission* 69, p. 2.

67 *Supplementary Submission* 117, p. 18.

not envisage any significant compliance costs involved in publishing this information which is intended to inform customers and the community about the reasoning behind the closure of the branch and for replacing it with another means of delivering the service. The documentation would come directly from the internal assessments conducted by the bank during its decision-making process.

Amendments to the branch closure protocol

4.81 Notwithstanding the development of a protocol for the closure of bank branches and assurances from the banks that they have adopted a more consumer-sensitive approach to branch closures, many in the community remain sceptical. They draw on strongly held impressions based on past experiences to anticipate the future behaviour of banks. Mr Samuel Smith, Gladstone Community Development and Tourism Association, encapsulated a view held widely in the community about branch closures:

> …the problem with the closure of banks in the country was that the banks just pulled up their shingles overnight and then there was nothing, and then local people and local businesses had to make arrangements to do their banking, which usually then had to be out of town.[68]

4.82 To the same effect, Councillor Burgess told the Committee:

> …we have found that one of the biggest issues is that the banks do not announce that they are going to pull out. They just seem to be here one day and gone the next. Once, when they first started pulling out, they would hold a public meeting and let the community know. There would be a bit of hoo-ha, but eventually they would be gone a month or so later. At least then there was a chance for a bit of training of people et cetera, but of late they just seem to pull out overnight.[69]

Thus, even if banks have mended their ways, the perception of their disregard for communities is deeply ingrained.

4.83 Without doubt there is a high level of dissatisfaction with the closure of bank branches in rural, regional and remote Australia and much residual resentment. In noting the major criticisms of the current branch closure protocol, the Committee makes the following recommendations in order to add to and strengthen the various undertakings. In adopting the recommendations, the Committee hopes that banks will take a more active and co-operative role in assisting communities adjust to branch closures and to help communities arrive at satisfactory alternatives.

68 Samuel Smith, President Gladstone Community Development and Tourism Association and member of the Rocky River Community Bank Steering Committee, *Committee Hansard*, 13 March 2003, p. 428.

69 *Committee Hansard*, 13 March 2003, p. 432.

Recommendation 3

The Committee recommends the following amendments to the *Transaction Services and Branch Closure Protocol*—

The following clauses to be inserted:

- **During any consideration by a bank to close a branch in a rural or remote area or to significantly downgrade its services, it will consult with customers and community organisations about the future of the branch and the options being considered to substitute for the loss of services.**
- **Where a bank intends to close a rural or remote branch and where that branch is the only branch in the town and the bank will not be able to provide an over-the-counter facility offering adequate services for both residents and local businesses, the bank will give a minimum of a six months written notice prior to the closure to customers of the branch and community organisations including local government.**
- **Where a bank gives notice of the closure of a rural or remote branch, it will release a community impact statement. The intention is to assist customers and the community understand the reasoning behind the closure and to equip them with vital information necessary to make informed decisions about measures that should be taken to ensure that the community has access to adequate banking and financial services.**

Protocol to be adopted following notification of closure:

- **Section 1 (b) be amended to read—'Where it is not commercially viable for a bank closing a rural or remote branch to provide local ongoing face-to-face services, which provide cash deposit and cash withdrawal facilities for personal and small business customers:**
  - **the bank will consult with and inform its customers about accessing alternative services;**
  - **the bank will maintain close liaison with its customers by ensuring that they have ready access to information and advice;**
  - **the bank will work with its customers and community organisations to facilitate the establishment of some form of banking service for example through the RTC program or Australia Post.'**
- **A clause be inserted that makes a clear statement of intention that a bank closing a branch will facilitate the transfer of accounts to another institution of the customer's choice. This undertaking to include the timely and orderly transfer of information and documentation.**

Conclusion

4.84 The Committee welcomes the announcement of a moratorium on branch closures by a number of banks. It is mindful, however, of the many branches that have closed their doors or downgraded their services over recent years and the lasting impact that that has had on communities throughout regional, rural and remote Australia.

4.85 Clearly, the banks have much ground to make up if they are to change public opinion. The protocol as it stands does little to enhance their image. The Committee has made a number of recommendations that would see the protocol convey a stronger message that banks are aware of the adverse impacts that a branch closure has on their customers and the community and that they have a genuine commitment to serve their customers even in situations where commercial imperatives require a branch closure.

4.86 The intention of the recommendations is also to ensure that communities facing a branch closure are assisted by the bank to make the transition to a satisfactory alternative without unnecessary delay, costs and upheaval. A branch closure protocol may well help a community through a transition period. It cannot, however, fully address the problems created by the withdrawal of a bank's presence.

4.87 The following part of the report analyses the provision of banking and financial services in regional, rural and remote Australia. The emphasis is on examining the various and different forms of delivery of banking and financial services and determining the extent to which they are compensating for the loss of bank branches and are meeting the needs of people living and working in country Australia.

PART II

THE PROVISION OF BANKING AND FINANCIAL SERVICES TO RURAL, REGIONAL AND REMOTE AUSTRALIA

Part I dealt with bank branch closures—the rate of decline, the reasons and context of that decline, its effects on residents, local businesses and the community and how banks manage branch closure.

Part II looks at the broader picture of the provision of banking and financial services in regional, rural and remote Australia. It comprises the following chapters:

Chapter 5 examines the effects of increased competition on the banking industry in country Australia—it identifies some winners and losers.

Chapter 6 provides an overview of the many and varied channels now providing banking and financial services throughout country Australia. It looks at APRA's Points of Presence database and assesses its usefulness as a tool to help understand the level and quality of banking and financial service delivery in regional, rural and remote Australia.

Chapters 7–12 look respectively at the following specific delivery channels:

- shared banking and mobile banks;
- credit unions, building societies and community banks;
- agencies and post offices;
- Rural Transaction Centres;
- Automated Teller Machines (ATMs) and Electronic Funds Transfer at Point of Sale (EFTPOS); and
- telephone and Internet banking.

Chapter 13 weighs up the advantages and disadvantages of electronic banking.