

CHAPTER 7

SHARED BANKING FACILITIES AND MOBILE BANKS

Introduction

7.1 The Committee notes that during the Hawker inquiry in 1998/99, the banking industry gave a clear indication that it intended to address the concerns of the community and announced a package of measures including a commitment to leave reasonable access to banking services when closing a branch in rural areas.¹ Since then, the banks have taken a number of steps to improve banking services to small rural communities. They cite the implementation of numerous initiatives intended to compensate for the loss or downgrading of full bank branch services.² For many consumers, the answer is for banks to share facilities or introduce a mobile banking scheme. This chapter examines both proposals.

Shared banking

7.2 At the local and community level there is strong support for ADIs to share facilities. The Victorian Farmers Federation suggested that banks conduct trials in housing more than one bank in the same building, possibly using the same staff, in towns where there is only one bank or branches are operating on reduced hours.³ It noted:

Such an arrangement could minimise regional accommodation and staffing costs for banks, with leases and staff split. Existing office infrastructure, including IT systems, security and safes would be better utilised, and over-capitalisation in banking services infrastructure for small towns would be reduced.⁴

7.3 It added that a number of banks sharing the one facility would offer the benefits of increased competition and provide consumers with a choice of face-to-face access from major banks. It could also provide an opportunity for the employment of a senior officer able to provide and negotiate personal and business finance.⁵ Mr Barber, Latrobe City Council, asked simply ‘why some of the banks have not been wise enough to get together in the smaller areas and have a smaller service’. He added:

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- 1 Report from the House of Representatives Standing Committee on Economics, Finance and Public Administration, *Regional Banking Services: Money too far away*, March 1999, p. 3.
 - 2 See David Bell, *Committee Hansard*, 14 November 2002, p. 61.
 - 3 *Submission* 104, p. 6.
 - 4 *Submission* 104, pp. 6–7.
 - 5 *Submission* 104, p. 7.

Sure, you will lose 50 per cent of the staff and two banks. One bank closing is bad enough, but it is a lot better than losing 100 per cent of the staff and leaving the area without a service.⁶

Perceived problems with shared banking

7.4 The South Australian Country Women's Association, the Goulburn Shire Council, the Gunning Shire Council and the District Council of Karoonda East Murray were among a number of community organisations that supported the concept of banks sharing facilities.⁷ Others, however, such as the Murgon Shire Council, expressed doubts about bank sharing arrangements because they believed it could lead to a further erosion of services.

Potential to undermine quality and level of service

7.5 The ABA suggested that the move to share a facility could be construed as a forerunner to reduced levels of branch facilities.⁸ The ANZ also held concerns about public perceptions that shared facilities would result in the downgrading of services. It submitted that branch sharing may have a negative impact on the local community in terms of unemployment if it resulted in a reduction in the number of branches in the town. It acknowledged that shared facilities raised other questions such as whether the banking services available would meet the needs of the local community. For example, whether it would only provide basic transaction services or more complex banking services such as establishing and re-financing loans, business cash handling or business relationship management.⁹

7.6 Drawing on overseas experiences, Mr Adrian Lovney, CUSCAL, also foresaw the possible undermining of services as a result of shared banking. He was of the view that:

...proposals that allow large institutions to share infrastructure, on the one hand, enable new facilities to be established at a lower cost but, on the other hand, conversely also allow existing branch structures to be rationalised. The experience in the UK of some of the shared services proposals is that it has been a Pyrrhic victory, in that it basically allows institutions to withdraw

6 *Committee Hansard*, 26 February 2003, p. 278.

7 *Submission 26*, p. 1; *Submission 41*, p. 2; *Submission 56*, p. 1. See also the District Council of Karoonda East Murray located in the Murray Mallee in SA which supports the development of shared facilities. *Submission 6*, p. 1. The Yallaro Shire Council accepted that it may not be possible for each bank to have a branch in the smaller centres. It suggested, however, that services would be enhanced if either a shared banking facility could be provided or at least one bank had a branch in centres of population with 800 residents. *Submission 23*, p. 1.

8 *Committee Hansard*, 14 November 2002, p. 62.

9 *Submission 121*, pp. 7–8.

services that they already have and consolidate those into single banking models.¹⁰

7.7 While the Committee accepts that a proposal by banks to share a facility may be interpreted as a move to reduce services, it could also be welcomed as a practical measure to retain at least a bank presence in the community. In the view of the Shire of Woodanilling ‘a shared facility does not replace a bank, but the “agency” can provide a very valuable resource for a community’.¹¹

7.8 Despite the apparent sensible approach to improve the delivery of banking services through shared arrangements, the major banks, in particular, were not confident that this proposal was a workable option for them and urged that this matter be subject to careful review.¹² They identified a number of problems in shared banking arrangements arising from:

- competing interests under the one roof;
- administrative complexities arising from matters such as cost sharing associated with the use of equipment and infrastructure;
- compliance with the requirements of the Trade Practices Act; and
- regulatory impediments under the Financial Services Reform Act (FSRA).

7.9 The following section looks closely at the main objections to shared banking.

Conflicts in a shared facility environment

7.10 A number of financial institutions identified competition issues such as conflict over whose product the employee sells as a major issue that could arise in shared banking. The Commonwealth Bank explained that if the employee were ‘receiving various rates of remuneration (based on sales) from the different financial institutions, there is an inherent risk that the adviser will sell those products from which they receive the greatest commission’.¹³

7.11 The ABA referred to the potential for consumer poaching as a commercial impediment to shared banking arrangements.¹⁴ The Wagga Mutual Credit Union also expressed doubts about shared banking as a feasible arrangement. It was of the view that two or more financial institutions using banking facilities in the one RTC or branch would not be a tenable long-term situation.¹⁵

10 *Committee Hansard*, 25 February 2003, p. 178.

11 *Submission* 14, p. 2.

12 See ANZ, *Submission* 121, p. 8; CUSCAL, *Submission* 109, p.3.

13 *Submission* 124, p. 4.

14 *Committee Hansard*, 14 November 2002, p. 62.

15 *Submission* 39, p. 2.

7.12 The Elders Bank recognised the challenges in arriving at an acceptable solution to the shared banking proposal where business rivals are expected to provide similar services from the one outlet while maintaining a competitive spirit. It noted, however, that the Elders joint venture arrangement with the Bendigo Bank did not involve a mismatch of interests. It stated that while Elders Bank is a shared shareholder facility 'it is not necessarily a competitor doctrine that needs to be delivered'.¹⁶ Likewise, the Commonwealth Bank cited the success of the giroPost where a post office outlet provides a banking service on behalf of a number of financial services providers but where commercial interests are not openly contested. It, however, held reservations about other shared arrangements where interests are more likely to clash.¹⁷

7.13 The Committee understands the concerns about the complications that could arise from having two or more banks, who are in direct competition, under the one roof and sharing a range of facilities including staff. Clearly, joint ventures where the parties complement their service delivery, such as Elders and Bendigo Bank, do not create such conflicts nor does giroPost where the provision of banking services involves basic banking transactions and is not the core activity of the outlet. These types of joint ventures are discussed at length later in the report.

Administrative difficulties

7.14 Some within the banking industry also felt that issues about internal management, security and sharing administrative costs could deter banks from entering a shared arrangement. The ABA referred to commercial impediments such as the difficulty in determining appropriate cost-sharing arrangements.¹⁸

7.15 The Commonwealth Bank noted that the need for common, or at least compatible, systems and technology to operate the shared facility would be a significant challenge. It asserted that it would require the negotiation of complex protocols. The impact on staff training and management would also be onerous for the participants.¹⁹

7.16 The Wagga Mutual Credit Union believed that shared banking facilities would not be successful because country people wanted complete privacy and protection in relation to their banking requirements. In its view, there would always be the perception that if one or more financial institutions used the same branch there would be room for leakage of confidential information particularly if computer facilities were not kept entirely separate.²⁰

16 Brian Goodfellow, *Committee Hansard*, 12 March 2003, pp. 372–3.

17 *Submission* 124, p. 4.

18 *Committee Hansard*, 14 November 2002, p. 62.

19 *Submission* 124, pp. 4–5.

20 *Submission* 39, p. 3.

7.17 Clearly, banks face awkward administrative and management issues in establishing a shared banking facility. The fundamental conflict of interests between competitors using the same facility adds to these complexities in making a shared branch a workable and constructive arrangement. While the Committee believes that such problems could be resolved, it acknowledges the reluctance of banks to enter into a shared agreement with another ADI.

7.18 Aside from the practical day-to-day difficulties for banks in sharing a facility, a number of submissions referred to regulatory impediments to the shared banking model.

Regulatory impediments—the Trade Practices Act

7.19 The ABA obtained legal advice that underlined the potential difficulties involved in the sharing of banking facilities. In brief, this advice suggested that the ‘per se provisions of the *Trade Practices Act 1974* (TPA)...and the obligations imposed on licensees by the *Financial Services Reform Act 2001* (FSRA) are likely to pose significant regulatory impediments to the commercial arrangements by which banking facilities may be shared’.²¹

7.20 The major concern was whether the prohibitions on restrictive trade practices under the TPA would apply to the commercial arrangements entered into under any proposal, planned or implemented by banks, for the sharing of banking facilities. The legal advice identified the following provisions of the Act likely to have a bearing on decisions to share banking facilities:

- *Collective boycotts or market sharing under section 45*—this section prohibits the making or giving effect to a contract, arrangement or understanding containing an exclusionary provision. Under section 4D, an exclusionary provision must be between competitors and have the purpose of preventing, restricting or limiting the supply or acquisition of goods or services to or from particular persons or classes of persons or on particular conditions.
- *Price fixing under section 45A*—this section deems a provision of a contract, arrangement or understanding to lessen competition substantially if it has the purpose, effect or likely effect of fixing, controlling or maintaining price (or a discount, etc) in relation to the supply or acquisition of goods or services by competitors.²²

The advice explained further:

The sharing of banking facilities could encompass, for example, arrangements involving:

21 Correspondence Gina Cass-Gottlieb to Mr David Bell, Australian Bankers’ Association, 10 October 2002, Attachment to *Submission 117*.

22 *ibid.*

- the sharing of physical infrastructure, eg: branch premises and information technology;
- the sharing of employees and joint provision of customer services;
- the appointment by one bank of another bank to act as its agent or representative; or
- the appointment of an authorised representative to represent more than one bank in the provision of customer services.²³

7.21 According to the advice, in some circumstances, these arrangements may provide an opportunity for information regarding prices, costs, products or services (including proposals for products or services) to be shared. In addition, some arrangements may require banks to agree on the costs each will incur in the sharing of banking facilities.²⁴

7.22 While conceding that such arrangements would not necessarily contravene the prohibitions on restrictive trade practices under the TPA, the advice concluded that it was ‘highly likely that the arrangements would attract close scrutiny’ by the ACCC.²⁵

7.23 The legal opinion accepted that the ACCC may grant an authorisation if it were satisfied that any lessening of competition arising from the provision would be outweighed by public benefit. It nonetheless questioned the effectiveness of seeking an authorisation because of a number of disadvantages such as:

- the absence of any time period within which non-merger applications must be approved;
- the process of review adds significantly to the delay and uncertainty of the review process; and
- the potential for exposure of commercial information relating to the parties to authorisation.²⁶

7.24 The ACCC informed the Committee that in principle it is possible for banks to establish arrangements for sharing facilities without raising trade practices concerns, but nonetheless agreed with the view that it, as a regulatory body, would take a close interest in bank sharing arrangements. It stated:

Generally, the banking and financial services sector is important for the strength of Australia’s economy and a sector that affects nearly all consumers. Consequently, collusive activities in this sector have the potential to generate significant detriment for the community. As such, it is

23 *ibid.*

24 *ibid.*

25 *ibid.*

26 *ibid.*

likely that the Commission would examine any proposal by banks to share facilities.

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In any event, if there was a prospect of a breach of the Act, the relevant banks could obtain an authorisation if they could satisfy the Commission that an initiative to share banking facilities generated a public benefit outweighing a public detriment.²⁷

7.25 In addressing the concerns about the length of time to obtain an authorisation, the ACCC conceded that the process is necessarily thorough and rigorous but that the Commission aims to issue a draft decision within four months and a final decision in six.²⁸ Mr Brian Cassidy, ACCC, explained further:

There are certain processes we have to go through which are important because...what we are doing is giving an exemption to conduct which is basically unlawful under the terms of the act...The process is very transparent and open. It provides opportunity for interested parties to have their say...That said, the speed with which we are able to deal with authorisations depends, importantly, on the speed with which the applicant deals with the issues...So the timing is partly in the hands of the applicant.²⁹

7.26 The Committee accepts that the ACCC should pay attention to activities such as sharing arrangements by banks. It understands that parties to such arrangements are entitled to seek an authorisation if they are worried that their proposal might raise trade practices concerns. The Committee appreciates that the process requires the parties to establish that their arrangement would generate a public benefit outweighing any public detriment but that such a process, while needing to be thorough, need not be lengthy.

Regulatory impediments—Financial Services Reform Act (FSRA)

7.27 The legal advice also examined the licensing obligations under the FSRA which requires a person who operates a financial services business in Australia to hold an Australian services licence. The Act allows one person to be an authorised representative for two or more financial services licensees if each licensee consents to the person being the authorised representative of each of the particular licensees. This means that licensees could share facilities by each appointing a person as its authorised representative for the purpose of providing financial services on their behalf. In such a case, however, the advice warned of the prospect of joint and several

27 Additional Information from the Australian Competition and Consumer Commission, 6 May 2003.

28 Additional Information from the Australian Competition and Consumer Commission, 6 May 2003.

29 *Committee Hansard*, 27 February 2003, p. 330.

liability applying which would be a likely disincentive for entering into such an arrangement.

7.28 According to the legal advice, a second problem arises from the responsibility on licensees to ensure compliance with obligations imposed by the FRSA. In other words, each licensee must ensure that their representative complies with the obligations under its respective licence. The advice emphasised that the licensee, not the representative, is accountable for all services provided under the licence. It concluded:

The establishment of shared banking facilities would create uncertainty for Australian financial services licence holders in relation to compliance with the above obligations imposed by the FSRA and an onerous and costly compliance burden.³⁰

7.29 The Commonwealth Bank also suggested that confusion could arise as to ‘under whose licence the employee staffing the shared facility would operate’. It explained further:

It may be possible to structure a ‘special purpose company’ in which case the staff member would be authorised by each financial institution but, as it stands, each financial institution would be jointly and severally liable for the actions of the staff member. Thus, inadequate documentation/training by one provider could result in a liability for each financial institution.³¹

7.30 The Act anticipates situations where a person can be an authorised representative for more than one licensee. ASIC outlined to the Committee the basic principles of the FSRA governing a situation where more than one licensee, in this case a number of ADIs, share services across a group. In turning to liability issues, Mr Ian Johnston, ASIC, mentioned that the licensing process was still in an early stage but that someone does have to be liable for the conduct of the representative and if they are representing more than one licensee, there does need to be a cross-endorsement by each licensee.³² Ms Pauline Vamos, ASIC, explained:

The act does contemplate that where a person does have a different authorisation for a different type of financial service, the licensee’s liability would be limited to the provision of that financial service. Where that person is providing the same service for two different licensees, there is cross-liability.³³

7.31 She made the point:

30 Correspondence Gina Cass-Gottlieb to Mr David Bell, Australian Bankers Association, Attachment to *Submission 117*.

31 *Submission 124*, p. 4.

32 *Committee Hansard*, 26 February 2003, pp. 209–10.

33 *Committee Hansard*, 26 February 2003, p. 209.

Our key message there is that somewhere somebody in the group has to take responsibility for monitoring and supervision and there must be close liaison between the licensees. It is not an insurmountable hurdle.³⁴

7.32 In reviewing the proposal for shared banking, Mr Bell told the Committee:

The preferred position of the banks is that we would rather see third parties roll out these networks, as they already have, and compete through those networks rather than go through this process, which is still cumbersome, of potentially having shared facilities. That is the preferred view of the members.³⁵

7.33 Clearly, there is a strong current of resistance from the major banks to shared facilities. The Committee believes that the problems could be overcome but, without the major banks' endorsement, this option seems unlikely to take hold. Although the Committee understands their reluctance, it nonetheless urges the banks not to discard the idea completely. There may be circumstances particularly in servicing the needs of small business in regional areas where cooperation between the banks may be the ideal solution for the community and a means for banks to maintain a physical presence in the locality.

Mobile banks

Community support for mobile banking

7.34 A number of submissions thought that a mobile bank could address the problem of access to banking services for some communities. The Shire of Woodanilling, which has no banking service within its municipal boundary, submitted that it appears to be a policy of the banking industry to locate lending officers in larger regional branches. It suggested that it would be a major advantage for rural areas to have access to 'travelling' lending officers. This arrangement would allow for urgent matters to be dealt with over the telephone, while still providing a 'face to face' opportunity for people to deal with lending issues.³⁶

7.35 The Catholic Women's League (Tasmania) referred to the mobile bank system operating in the UK. According to the League it works along the same lines as the mobile library units that service rural areas in Tasmania. The mobile bank visits certain locations on set days and customers can take advantage of normal banking facilities. It also allows business people to bank their takings.³⁷ The Shire of Wiluna also supported the introduction of circuit mobile services to remote areas on a regular basis.³⁸

34 *Committee Hansard*, 26 February 2003, p. 209.

35 *Committee Hansard*, 14 November 2002, p. 70.

36 *Submission 14*, p. 1.

37 *Submission 28*, p. 1.

38 *Submission 51*, p. 1.

7.36 Professor Harper also saw the potential for banks to explore the use of mobile banks. He told the Committee:

What South Africans are doing with mobile banking and mobile technology is just extraordinary. They are leaping over the need for lines and physical facilities because the communities, as you would be aware, they are dealing with are very remote, very poor, often illiterate. Yet the sorts of banking services which are being taken to those communities are, in many cases, very sophisticated. Ordinary villagers in South Africa are just as concerned about their financial affairs.³⁹

7.37 Indeed the Association of Bankers of South Africa is proud of its success in developing and introducing two State of the Art Mobile ATMs to bring ‘banking to more people of South Africa’. It explained:

They are manned by a ‘Mobile ATM Custodian’ who is committed to delivering professional and efficient service to all people he meets. This highly trained individual not only drives the ATM to various destinations, some of which are somewhat off the beaten track, but is also responsible for all the technology support, the Communication link-up upon arrival, and manning the Administrative desk when the ATM is up and running.⁴⁰

Banks’ attitude to mobile banking

7.38 In evidence before the Committee, the banks indicated that they operate a mobile banking service but this service seems to be confined to particular customers and is concerned primarily with providing advice.⁴¹ As noted in chapter 5, there are specific sectors in the rural community, for example the agribusiness sector, that are valued customers of the banks. In such cases, the banks are catering to the needs of selected customers by providing a mobile banking service for them.⁴² Mr Carroll, National Australia Bank, informed the Committee:

In the agribusiness division there are people who look after those farms and stations. We run a fleet of 190 vehicles, and it does mean face to face. Our agribusiness managers would be out there with those farmers once a year with laptop computers running through their budgets. Often they would take a specialist with them—if there is a commodities prices risk management need that we can fulfil, we will take a specialist out there.⁴³

7.39 The service is not confined to agribusiness customers. Mr Ian MacDonald from the National, told the Committee:

39 *Committee Hansard*, 26 February 2003, p. 242.

40 *Supplementary Submission* 117, p. 37.

41 See Hugh Harley, *Committee Hansard*, 25 February 2003, p. 130.

42 *Committee Hansard*, 14 November 2002, p. 56.

43 *Committee Hansard*, 27 February 2003, p. 316.

We recognise that not everyone in the bush is a farmer. For that reason, we have extended our relationship approach to other rural customers. Since 1997, we have provided our rural business customers with dedicated business relationship managers. Like our agribusiness managers, these business managers reside locally, are mobile and are happy to travel to visit their customers. These managers provide specialist advice to our customers across their total business needs.⁴⁴

7.40 Again the Committee refers back to its findings in chapter 5 which showed that there are sectors in the rural economy which have benefited from competition and receive high-quality service, for example personal relationship managers who will visit customers at their workplace or home. Less valued customers, however, miss out on such attention.

7.41 Evidence before the Committee suggests that banks in country Australia are not enthusiastic about providing a mobile banking service for basic banking transactions such as deposits and withdrawals. Mr Harley, Commonwealth Bank, told the Committee:

In the mid-1990s, we actually had exactly that facility and we were disappointed in the take-up of it...I suppose we can talk from experience in terms of having found it not to be greatly successful for us and, for that reason, not something we are actively considering at the moment.⁴⁵

7.42 Mr Jennings, Westpac, expressed concern about matters surrounding security.⁴⁶

7.43 The Committee agrees with the observation that delivering banking and financial services through a mobile bank provides a satisfactory compromise for areas unable to support a bank branch. It accepts, however, that banks are reluctant to expend time and resources on customers unlikely to produce significant commercial returns. Even so, the Committee believes that the banks have not demonstrated a commitment to service their retail customers in country areas by exploring and actively pursuing a range of potential service delivery channels including mobile banking. The proposal for a mobile rural transaction centre discussed later in this report is an example of the innovative approach being taken by local councils to find solutions to the banking difficulties faced by their residents in outlying districts. The banks do not appear to have the incentive to follow their example let alone take the lead in investigating different ways to meet the needs of their customers in country Australia including through a mobile banking facility.

7.44 The Committee believes that this means of delivering banking and financial services to rural and remote Australia could be explored further.

44 *Committee Hansard*, 27 February 2003, p. 301. See also *Committee Hansard*, 27 February 2003, p. 314.

45 *Committee Hansard*, 25 February 2003, pp. 133–4.

46 *Committee Hansard*, 25 February 2003, p. 121.

