



## Parliamentary Joint Committee on Corporations and Financial Services

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### Money Matters in the Bush

Inquiry into the Level of Banking and Financial Services  
in Rural, Regional and Remote Areas of Australia

January 2004

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## DUTIES OF THE COMMITTEE

Section 243 of the *Australian Securities and Investments Commission Act 2001* sets out the duties of the Committee as follows:

The Parliamentary Committee's duties are:

- (a) to inquire into, and report to both Houses on:
  - (i) activities of ASIC or the Panel, or matters connected with such activities, to which, in the Parliamentary Committee's opinion, the Parliament's attention should be directed; or
  - (ii) the operation of the corporations legislation (other than the excluded provisions), or of any other law of the Commonwealth, of a State or Territory or of a foreign country that appears to the Parliamentary Committee to affect significantly the operation of the corporations legislation (other than the excluded provisions); and
- (b) to examine each annual report that is prepared by a body established by this Act and of which a copy has been laid before a House, and to report to both Houses on matters that appear in, or arise out of, that annual report and to which, in the Parliamentary Committee's opinion, the Parliament's attention should be directed; and
- (c) to inquire into any question in connection with its duties that is referred to it by a House, and to report to that House on that question.



## **TERMS OF REFERENCE**

On 25 July 2002, the Chairman of the Parliamentary Joint Committee on Corporations and Financial Services announced that the Committee had agreed to inquire into the level of banking and financial services available to Australians living in rural, regional and remote areas of the country. The inquiry was to place particular focus on:

- (a) options for making additional banking services available to rural and regional communities, including the potential for shared banking facilities;
- (b) options for expansion of banking facilities through non-traditional channels including new technologies;
- (c) the level of service currently available to rural and regional residents; and
- (d) international experiences and policies designed to enhance and improve the quality of rural banking services.





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## ACRONYMS AND ABBREVIATIONS

AAPBS	Australian Association of Permanent Building Societies
ABA	Australian Bankers' Association
ABARE	Australian Bureau of Agricultural and Resource Economics
ABS	Australian Bureau of Statistics
ACCC	Australian Competition and Consumer Commission
ACCORD	Australian Centre for Co-operative Research and Development
ACSWC	Australian Catholic Social Welfare Commission
ADI	Authorised Deposit-taking Institution
AISG	ATM Industry Steering Group
ALGA	Australian Local Government Association
ANZ	Australian and New Zealand Banking Group Limited
APCA	Australian Payments Clearing Association
APRA	Australian Prudential Regulation Authority
ARIA	Accessibility/Remoteness Index of Australia
ASIC	Australian Securities and Investments Commission
ATSIC	Aboriginal and Torres Strait Islander Commission
ATM	Automatic Teller Machine
BDP	Basic Deposit Products
CAEPR	Centre for Aboriginal Economic Policy Research
CDEP	Community Development Employment Program
CDFI	Community Development Finance Institution
COSBOA	Council of Small Business Organisations of Australia
CPSCU	CPS Credit Union (SA) Ltd
CRA	Community Reinvestment Act (USA)

CSO	Community Services Obligation
CTSA	Community Teleservices Australia (Inc)
CUSCAL	Credit Union Services Corporation (Australia) Limited
CWA	Country Women's Association of Australia
DOTARS	Department of Transport and Regional Services
EBT	Electronic Benefits Transfer
EFTPOB	Electronic Funds Transfer at Point of Banking
EFTPOS	Electronic Funds Transfer at Point of Sale
FaCS	Department of Family and Community Services
FSI	Financial System Inquiry
FSRA	<i>Financial Services Reform Act 2001</i>
FSU	Finance Sector Union of Australia
Hawker Report	Report from the House of Representatives Standing Committee on Economics, Finance and Public Administration, <i>Regional Banking Services: Money too far away</i> , March 1999
HREOC	Human Rights and Equal Opportunity Commission
ISDN	Integrated Service Digital Network
ISP	Internet Service Provider
LGSA	Local Government and Shires Association
LPO	Licensed Post Office
NAB	National Australia Bank
NCC	National Competition Council
NFF	National Farmers' Federation
OECD	Organisation for Economic Co-operation and Development
OTC	Over-the-counter
PCCN	Progressive Community Crow's Nest Ltd
PIN	Personal identification number

POAAL	Post Office Agents Association Limited
PS 146	ASIC Policy Statement 146: Licensing: Training of financial product advisers
PSA	Prices Surveillance Authority
QGAP	Queensland Government Agents Program
RBA	Reserve Bank of Australia
RTC	Rural Transaction Centre
SLA	Statistical Local Area
TCU	Traditional Credit Union
TPA	<i>Trade Practices Act 1974</i>
USO	Universal Service Obligation
Wallis Report	Commonwealth of Australia, <i>Financial System Inquiry Final Report</i> , March 1997



# EXECUTIVE SUMMARY

## Introduction

In this report, the Committee reviews recent developments in the provision of banking and financial services in rural, regional and remote Australia. It assesses the direction being taken by financial institutions and the communities they serve in meeting the challenge to provide adequate banking and financial services to those in country Australia. As well as describing the problems experienced by such people in obtaining satisfactory access to banking and financial services, the Committee also discusses and gives serious consideration to practical means to improve the delivery of such services.

## Branch closures

Since 1994 there has been a steady decline in the number of bank branches in country Australia. Deregulation, technological progress, shifts in consumer demands and demographic trends have contributed to the pressure on banks to prune their branch networks. They now operate in a highly competitive environment shaped in large measure by the global market. This competitive market has changed the face of banking as financial service providers introduce measures to increase efficiency, improve performance and reduce costs. With the help of advances in technology and changes in consumer preferences, banks are now able to offer customers a range of services. The tradeoff, however, has been the rationalisation of bank branches. Some localities in regional, rural and remote areas simply can not attract or retain their local branch.

Where banks have withdrawn their branches, residents and businesses experience a number of problems such as the trouble, anxiety and costs associated with rearranging or transferring accounts, the uncertainty of having to adapt to new ways of banking and the inconvenience involved in travelling long distances to conduct face-to-face banking. For both individuals and businesses, there are also safety and security matters arising from the lack of access to a branch; the loss of economic opportunities; limited choice in obtaining professional advice and finance, especially venture capital; and potential exclusion from the financial world. The loss of a bank branch, especially if it is the last one in town, has wide reaching implications for the economic and social life of the community. Some regard the departure of a bank as the ‘beginning of the end for a small town’.

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. The banks have ground to make up if they are to change public opinion. The Committee welcomes the announcement of a moratorium on branch closures by a number of banks and the formulation of a transaction services and branch closure protocol. The protocol as it stands, however, does little to enhance the banks’ 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 also allow the banks to demonstrate a genuine commitment to serve their customers even in situations where commercial imperatives require a branch closure.

The intention of the recommendations is to ensure that consumers facing a branch closure are assisted by the bank to make the transition to a satisfactory alternative without unnecessary delays, costs and upheaval. The Committee hopes that banks, in adopting the recommendations, will take a more active and co-operative role in assisting customers and their communities to find acceptable solutions to the problems caused by branch closures. The Committee has recommended, *inter alia*, that a bank produce a community impact statement on announcing its intention to close a branch.

The banks are also placing a heavy reliance on non-traditional forms of banking services to convey a positive message that they are indeed catering to the needs of those in regional Australia. The report found, however, that because of the want of competition in some areas of regional, rural and remote Australia, the market has been sluggish in responding to consumer demands. Against this backdrop of branch closures and weak competition, the Committee considered the adequacies of alternative banking services.

## **Shared banking and mobile banking**

For a number of witnesses the solution to the cutback in services was for banking institutions to share facilities. There was, however, strong resistance from the major banks to this proposal. While the Committee believes that the problems associated with shared banking can be overcome, it accepts that without the major banks' endorsement this option seems unlikely to take hold. Although the Committee understands their reluctance to share facilities, 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 co-operation between the banks may be the ideal solution for the community and a means for banks to maintain a physical presence in the locality.

The Committee agrees with the observation that delivering banking and financial services through a mobile bank could provide a satisfactory compromise for areas unable to support a bank branch. But banks appear unwilling to expend time and resources on customers unlikely to produce significant returns. The Committee suggests that banks demonstrate a commitment to serve their retail customers in regional, rural and remote Australia by exploring and actively pursuing a range of potential service delivery channels including mobile banking.

## **Credit unions, building societies and community banks**

In withdrawing from some country towns or downgrading their level or quality of service, the major banks have presented other financial service providers, such as credit unions, building societies and community banks, with an opportunity to fill the void.



As with banks, these institutions must balance the commercial interests of their shareholders, the demands of their customers and the needs of the community. Although credit unions, building societies and community banks are involved in the community and have a closer relationship with their shareholders, their success depends ultimately on their economic viability.

The Committee found that small ADIs face a number of hurdles in operating or expanding their businesses in rural and regional Australia which include:

- high start-up costs;
- portability of accounts and bank practices associated with switching accounts which form a barrier for new entrants;
- prudential regulations;
- requirements under the Financial Services Reform Act (FSRA) which result in significant compliance costs;
- their status as non-bank ADIs; and
- their limited experience in servicing the broader financial needs of country Australians.

The Committee was particularly concerned about compliance costs and the lack of flexibility in some of the requirements under the FSRA. It believes that the Australian Government needs to be aware of the difficulties borne by the smaller ADIs in satisfying regulatory requirements and to demonstrate a commitment to keep such obstacles to a minimum.

Unfortunately, some communities without a bank branch, even with determined commitment, cannot generate the level of support or finance needed to establish and sustain a credit union or building society branch or a community bank. This means that communities without satisfactory access to banking and financial services and unable to attract an alternative provider must rely on other means to gain access to such services.

### **Third party arrangements—agencies, giroPost and RTC**

There are various forms of co-operation and partnerships that are being forged by service providers to assist in the delivery of banking and financial services to communities in regional Australia.

Many ADIs have adopted an ‘agency’ or ‘in-store’ model as a means of delivering over-the-counter services but without the need to maintain a fully functioning traditional bank branch. By outsourcing branch functions to a third-party operated facility, they are able to provide services with fewer staff and at lower costs. Although the various agencies and in store facilities vary in the level of service they provide, some submissions raised concerns about the adequacy of the service delivered. They include:

- limited services especially the level of access to professional bank staff; and
- privacy and security concerns.

The Committee shares the optimism of both Australia Post and the Post Office agents about the increased role that post office outlets could have in providing banking and financial services to regional, rural and remote Australia. It accepts that financial institutions could do more to use post office outlets to better service small communities and the Committee encourages financial institutions not yet using giroPost to consider doing so.

The Committee understands that the very purpose of establishing an agency is to deliver banking services but at reduced costs. It follows that the level of service will not be the same as that delivered through fully operational branches. It accepts that the services provided by agencies, including giroPost, are limited. For communities struggling to retain a full branch service, however, they provide access to basic banking transactions. Nonetheless, it is clear that consumers, including small business, miss the personal contact offered through a traditional branch and it is in this area that banks need to show some initiative and willingness to pay heed to the needs of their customers.

The Committee endorses the Rural Transaction Centre (RTC) program as an effective means of restoring services to towns that have witnessed the gradual withdrawal of banking services from their locality. An RTC can be a means of renewing confidence, promoting local enterprise, and providing a convenient and safe location for people to conduct their banking affairs with staff on hand to assist them in transacting business. While the Committee believes that such a scheme holds promise it was concerned about:

- the slow progress in establishing operational RTCs;
- the number of RTCs that do not provide banking and financial services;
- sustaining, even reinvigorating, the program to ensure that the progress made is built upon and not eroded; and
- future funding.

While the Committee recommends that the Australian Government continue its support for the program, it believes that the program would benefit from a close review of its operation with a view to improving and extending the program.

## **Electronic banking**

Without doubt many benefits come with the use of electronic banking. Consumer behaviour and the enthusiasm with which people have adopted this method of banking stands as incontrovertible evidence of the popularity of electronic banking. The convenience, ease of access, and lower transaction costs attract more and more consumers. They now enjoy access outside normal banking hours and have no need to leave their home or place of business to obtain information and carry out transactions. Not all Australians, however, are able to take advantage of the new technology and the

technology itself has limitations in delivering banking services to regional, rural and remote Australia.

The Committee found that a number of obstacles form real barriers to accessing electronic banking including the absence of facilities such as ATMs, EFTPOS, computer terminals, even telephones in the community; inadequate infrastructure to support the delivery of the service; costs associated with purchasing necessary equipment; and poor proficiency and lack of confidence in using the technology.

The Committee acknowledges that there are areas particularly in remote Australia that present challenges for telecommunication service providers in providing adequate access to telecommunication infrastructure on a commercially viable basis. It accepts that such areas may need government intervention to ensure adequate and affordable access to telecommunication services. The Committee believes that the Government in considering the provision of telecommunication services to regional, rural and remote Australia keep foremost in its mind the crucial role that this service now has in delivering banking and financial services to people throughout country Australia.

In turning to the matter of affordability of equipment, the Committee accepts that there are people in country Australia who cannot afford the outlay to purchase a computer and hence will have limited access to internet banking. The Committee believes that assistance from the Government and the banking industry toward ensuring that communities have access to public phones and internet terminals is a first step toward enabling all Australians to access electronic banking.

Furthermore, the Committee believes that the banking sector has not done enough to facilitate access to new technology and most importantly has failed to ensure that their customers have the opportunities and are encouraged to use new technology. It would like to see the banking sector work more closely with community organisations especially local councils in offering support and funding for projects designed to encourage people to use electronic banking. For example by providing libraries with computers and other necessary equipment or investigating and actively participating in projects such as the mobile RTC concept.

## **Education and Training for banking in the 21<sup>st</sup> century**

The Committee believes that the education of consumers in using and adapting to electronic and remote access channels is of paramount importance. Clearly, the quality and level of education and training offered to consumers is falling short of expectations. The resounding message from local councils in particular is that the banks have failed to equip some of their customers with the skills and confidence needed to use new technology effectively. The evidence before the Committee suggests that the banks have not given attention to practical hands-on training where customers can experiment with new technology without fear of embarrassment or mistakes. A multi-pronged approach should be taken by the banks to improve people's understanding of the technology and how to use it. The range of practical measures that banks could employ to assist their customers adjust to and become comfortable with the new ways of banking is vast. The Committee believes that banks should:

- expedite the introduction of industry standards;
- allow sufficient time for people to experiment with and become accustomed to new technology and for the banks to monitor the transition to new ways of banking so that adjustments can be made in light of any difficulties experienced by customers during this phase;
- offer hands-on training and education programs;
- work in close partnership with local community groups particularly the local council to implement practical strategies to entice older Australians to use modern technology when banking;
- provide education and training programs that focus not only on proficiency in using new technology but on confidence building in the technology itself; and
- ensure that there is on-going and easily accessible support to help people who may be struggling with the technology or loath to use it.

It clearly sees a role for government in partnership with the banking industry and community groups to ensure that the potential offered by new technology is fully exploited. The RTC program and Australia Post present scope for testing a range of projects designed to explore the potential of new technology.

Government and the banking industry also share the responsibility for the development of an educational framework that will encourage people of all ages, from all walks of life and in all localities to use and enjoy using new technologies to access banking and financial services.

## **Banking and remote Indigenous communities**

The Committee is aware that Indigenous people share with other people in regional, rural and remote Australia difficulties in gaining access to adequate banking and financial services. It notes, however, that some difficulties faced by Indigenous people are often compounded by remoteness, lack of financial literacy, socio-economic disadvantages, cultural differences or a combination of some or all of these factors. In some cases, their need for assistance is greater.

The Committee believes that any broad plan to improve access to banking and financial services must also seek to encourage financial institutions to make a commitment toward and to put in place practical measures to improve the delivery of banking and financial services to people in regional, rural and remote Australia particularly Indigenous Australians.

The ABA has committed itself to working with government and other stakeholders to explore options for addressing the problems of access to banking services for the 32 towns identified in a survey commissioned by the ABA as having no over-the-counter banking service. All towns are located in remote and very remote regions of Australia, and have a higher proportion of Indigenous people living in the community than in the general population.

According to the ABA, the banking industry is ‘willing to commit resources in particular to finding solutions for the difficulties that people in remote Australia face, including personal financial literacy skills, and less choice of services’. The most recent step toward this objective was the announcement by the ABA to lead a tripartite Round Table (Remote Services Round Table’). In brief, the initiative is to involve relevant government agencies, in partnership with Reconciliation Australia, to draw up action plans to improve access to banking services.<sup>1</sup> This proposal is in keeping with a number of the Committee’s recommendations. For example, the Committee sees an important role not only for institutions such as the Traditional Credit Union but the major banks in encouraging and assisting Indigenous Australians to pursue a career in the financial services sector (see recommendation 25). Recommendations 26 and 27 are also particularly relevant.

While the Committee endorses the ABA’s proposal and strongly encourages other possible participants to support the roundtable process, the Committee, nonetheless, would like to see concrete evidence of financial institutions taking a more hands-on approach to providing financial services to remote communities.

## **Community service obligation**

The Committee heard a range of opinions on the extent to which banks have a responsibility to the community. Many submissions held the view that banking services should be considered an essential service—a necessity of everyday life.

The Committee believes that banking and financial service providers should strive to deliver the same level and quality of service to country Australia as they provide to metropolitan areas. It accepts that in some cases this objective cannot be achieved on a commercially viable basis. Nonetheless, the Committee believes that access to a basic banking service is an essential service—that all Australians should have affordable and ready access to a deposit account that receives funds and can be used to make payments. In communities where it is commercially unsustainable for banks to provide face-to-face banking services, the banking industry has an obligation to take all reasonable measures to ensure that consumers have alternative means to access their account. In the Committee’s view this obligation extends to providing the education and training necessary for consumers to effectively use the alternative means of banking; working with and providing assistance to communities to find satisfactory solutions to their banking problems; and ensuring that bank practices such as charges and fees and interest rates on loans do not discriminate against people in regional, rural and remote Australia.

## **Conclusion**

The Committee believes that ensuring the provision of adequate banking and financial services to regional, rural and remote Australia is the joint responsibility of the financial services sector and government with the active involvement of the

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1 *Supplementary submission 117A* p. 2.

community. It believes that ADIs do have a social responsibility to ensure that the communities they serve are provided with adequate services. It believes that there should be measures in place to guide, assist, even compel Australian ADIs to behave appropriately. The industry code of practice provides a major incentive for banks to observe minimum standards. The Committee has made recommendations to strengthen the protocol governing branch closures by, *inter alia*, requiring banks when considering branch closures to consult with the community and to release a community impact statement. It has also made recommendations to broaden the banking code of practice by including an undertaking that banks will take all reasonable measures to educate customers in the use and benefits of accessing banking services through new technologies. Further, that the code will offer practical guidance on some of the measures that banks could take to ensure that they are effective in meeting this commitment.

In turning to compliance, the Committee has recommended that the ABA take an active role in monitoring and reporting on the banks progress in improving its code of practice and in implementing the recently formulated industry standards. Furthermore, the Committee has recommended that the banks work together to minimize the costs associated with using a foreign ATM in country areas and to introduce a safety net basic account that provides benefits over and above those offered in the recent proposal developed by the ABA.

Governments also have an important role in ensuring that all Australians have reasonable access to banking and financial services. Their central function is to create a marketplace in which consumers are well-informed, their interests are protected and competition flourishes. The Committee believes that the Government has an obligation to intervene should the market fail to look after the needs of consumers especially in the area of access to banking and financial services.

To this end the Committee has made a number of recommendations that include improving the quality of data on, and analysis of, the availability of banking and financial services. It has recommended the continued funding of the RTC program, ongoing support for programs such as the Family Income Management Plan, and the introduction of an incentive scheme providing opportunities for Indigenous people to work and pursue a career in the financial services sector. The Committee has also recommended that the Government take a far more active role in monitoring and encouraging financial institutions to observe minimum industry standards and to express its readiness to implement stronger regulatory requirements should the industry fall short in meeting these standards. The Committee can see the advantages to be gained in placing requirements on banks to report on their work in disadvantaged communities and has asked the Department of the Treasury to consider the merits of a rating scheme.

In turning to the regulatory bodies, the Committee has recommended that—the ACCC examine the competition issues involved in switching bank accounts; ASIC investigate practices associated with book up in an effort to curb unscrupulous conduct; and ASIC and APRA examine and report on the compliance costs for smaller ADIs in providing services to regional, rural and remote areas under the current

regulatory regime and whether the costs can be minimised without compromising consumer interests or prudential standards.

Overall, the recommendations are intended to improve competition in the retail banking industry, strengthen consumer protection and encourage the financial services sector to assume a far more active and responsible part in promoting the economic welfare of people and their communities in regional, rural and remote Australia.

The following section lists the recommendations contained in the report.





# RECOMMENDATIONS

## **Recommendation 1**

Chapter 4, p. 62

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.

## **Recommendation 2**

Chapter 4, p. 62

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*.

## **Recommendation 3**

Chapter 4, p. 67

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.

**Recommendation 4**

Chapter 6, p. 84

The Committee recommends that the Department of the Treasury and the Department of Transport and Regional Services review the ‘points of presence’ database to determine whether the current system of gathering statistics on access to banking services is producing a full and accurate representation of the delivery of such services to rural, regional and remote Australia. Further, acknowledging that APRA does not attempt to analyse or interpret the information it gathers for the points of presence database, the Committee recommends that the Australian Government nominate another agency better suited to carry out such analysis.

**Recommendation 5**

Chapter 8, p. 111

The Committee recommends that the ACCC convene an industry working group that would include consumer associations to review current practices in the transfer of accounts from one financial institution to another to determine whether there are impediments to the switching of accounts and, if so, to formulate best practice guides that could be used as a model to facilitate the transfer of accounts to be incorporated in the Banking Code of Practice.

**Recommendation 6**

Chapter 8, p. 113

The Committee notes APRA’s willingness to examine proposals to ‘develop a viable tier one capital instrument that will not trigger demutualisation’. It recommends that APRA in consultation with credit unions and building societies explore this proposal.

**Recommendation 7**

Chapter 8, p. 118

The Committee supports the objectives of the *Financial Services Reform Act 2001* and recommends that the Government monitor its implementation and related regulations.

Specifically, the Committee recommends that APRA and ASIC consult with CUSCAL, smaller ADIs and other interested parties about the impact of the regulatory regime on the ability of ADIs to meet the banking and financial services needs of Australians living in rural, regional and remote communities. The Committee further recommends that following the consultation, the two regulators prepare a report for government on the costs of compliance under the current regulatory regime, its effect on competition, and whether and how the costs could be minimised without compromising consumer interests or prudential standards. The report is to be tabled in Parliament.

The Committee also recommends that the consultation and report process give particular attention to the delivery of banking and financial services to Indigenous communities in remote Australia.

**Recommendation 8**

Chapter 8, p. 122

The Committee recommends that the Government in its review of the levy structure give close consideration to the concerns of the smaller ADIs with a view to easing this burden. Further that the matter be included in the concerns to be taken up by APRA and the industry in the review of compliance costs mentioned in recommendation 7.

**Recommendation 9**

Chapter 10, p. 166

The Committee recognises a need for those managing RTCs to be part of a more effective communication network so that they can benefit from each other's experience and provide valuable advice for those considering applying for assistance. The Committee recommends that the Department of Transport and Regional Services take a more active role in encouraging the development of stronger links between RTCs throughout Australia and between RTCs and departmental officers.

**Recommendation 10**

Chapter 10, p. 169

The Committee recommends that the Australian Government conduct a review of the RTC program and its future direction. The review would:

- identify ways to streamline the process of applying for funding and to better assist communities formulate a business case for an RTC;
- develop a program designed to produce a better and more effective communication network between individual RTCs;
- establish why many RTCs do not provide banking or financial services;
- examine the scope and formulate a better strategy for extending the services provided by the centres particularly the provision of banking and financial services;

- determine the adequacy of the level of funding, especially the requirement for on-going funding, to ensure that established centres maintain their momentum and that new centres can be established; and
- consider the value in subsidising RTCs in localities without access to banking services but which would have difficulty in becoming self sufficient.

**Recommendation 11**

Chapter 10, p. 170

In light of the findings of the Auditor-General, Audit Report No. 12, 2003–4, *The Administration of Telecommunications Grants*, the Committee recommends that the Government make a public recommitment to the RTC program especially to enhancing its role as a provider of banking and financial services to areas without access to such services.

**Recommendation 12**

Chapter 11, p. 180

The Committee recommends that all ADIs place a high priority on introducing the industry standards governing ATMs and EFTPOS in the more remote areas of Australia.

The Committee further recommends that the ABA monitor and report on the progress made in implementing these standards in rural, regional and remote Australia.

**Recommendation 13**

Chapter 11, p. 181

In turning to the matter of the additional costs imposed for using a foreign ATM, the Committee recommends that banks implement measures to minimise the penalties imposed on their customers living in areas where they have no choice but to use a foreign ATM.

**Recommendation 14**

Chapter 11, p. 181

The Committee recommends that the ATM Industry Steering Group include in its considerations on the reform of ATM interchange fee arrangements the special circumstances of fees and charges associated with the use of foreign ATMs in rural, regional and remote Australia. The focus of the group would be on building into any proposed reform of the ATM fee structure safeguards that would ensure that people living in country towns and remote communities do not incur significantly higher fees or charges for using a foreign ATM and that an unreasonable or unwarranted differential in fees and charges between those in rural and remote areas and those in metropolitan areas does not develop.

**Recommendation 15**

Chapter 12, p. 197

The Committee recommends that any initiatives to develop or improve information technology and telecommunications infrastructure in regional, rural and remote Australia take account of the banking needs of those living in country Australia and are implemented to support and enhance the provision of such services.

**Recommendation 16**

Chapter 13, p. 205

The Committee recommends that the review as suggested in recommendation 10 include consideration of the more innovative ways that RTCs may be involved in delivering banking services to the remote areas of Australia including the concept of a mobile RTC.

**Recommendation 17**

Chapter 13, pp. 207–8

The Committee recommends that banks have trained officers available in their regional centres to look after the banking needs of customers in country Australia who do not have face-to-face access to trained bank staff. These designated officers would have responsibility for customers from a particular geographic area and have direct knowledge of the local community and businesses in the district.

**Recommendation 18**

Chapter 14, p. 228

The Committee recommends that ADIs:

- expedite the introduction of industry standards as recommended in chapter 11—standards have also been formulated for telephone and Internet banking;
- allow sufficient time for people to experiment with and become accustomed to new technology and for the banks to monitor the transition so that adjustments can be made in light of any difficulties during this phase;
- offer hands-on training and education programs—the suggestion from the Latrobe City Council about the use of dummy machines is a practical and sensible idea and illustrates the range of options available to ADIs to explore in structuring programs to assist their customers adopt new ways of banking;
- work in close partnership with local community groups, particularly the local council, to implement strategies to entice older Australians to use modern technology when banking;
- provide education and training programs that focus not only on proficiency in using new technology but on confidence building in the technology itself; and
- ensure that there is on-going and easily accessible support to help people who may be struggling with the technology or loath to use it.

**Recommendation 19**

Chapter 14, p. 228

The Committee recommends that the Australian Bankers' Association amend their current code of practice to include the commitment that banks will take all reasonable measures to educate customers on the use and benefits of accessing banking services through new technologies. Further, that the code will offer practical guidance on some of the measures that banks could take to ensure that they are effective in meeting this commitment. They could include examples taken from recommendation 18.

**Recommendation 20**

Chapter 15, p. 245

The Committee recommends that the banking industry formulate a safety net basic bank account that addresses the concerns of the ACCC and consumer groups and again seeks authorisation from the ACCC. In particular, the new proposal, while retaining some features of the earlier proposal put to the ACCC such as no account keeping fees, would improve on it by offering more non-deposit, fee-free transactions and also include safeguards that would:

- eliminate fees for bank balance inquiries; and
- not provide an overdraft facility.

The Committee recommends further (and assuming that the ACCC's authorisation is forthcoming) that the banks notify their customers of the availability of the safety net account in literature sent to customers and by displaying the relevant information in a prominent position in every bank outlet.

**Recommendation 21**

Chapter 15, p. 245

The Committee acknowledges that some ADIs already make available a basic bank account to better suit the needs of low income earners. It recommends, however, that they extend the benefits offered by the account. The Committee recommends that individual ADIs make available to their customers, who are concessional card holders and low income earners, a safety net basic bank account which includes measures outlined in the previous recommendation. Further, in line with the previous recommendation, ADIs notify their customers that such an account is available.

**Recommendation 22**

Chapter 15, p. 246

The Committee recommends that the banking industry urgently investigate expanding the services offered through EFTPOS to enable a customer to access information on their account balance during a transaction.

**Recommendation 23**

Chapter 15, p. 248

The Committee recommends that ASIC investigate practices associated with book up in an effort to identify and curb unscrupulous conduct. The Committee is aware that some retailers who use book up are providing a much-needed service to some communities. It has no wish to see regulation prevent them from providing this service. It does, however, want to see the abuse of the system stopped.

**Recommendation 24**

Chapter 15, p. 252

The Committee recommends that rather than continue with the piecemeal approach to the education of Indigenous Australians in financial literacy that the Australian Government work with the state governments to ensure that financial literacy and money management form part of the core school curriculum starting from the earliest years of primary education and carrying through to the secondary years of formal education and to adult education programs.

**Recommendation 25**

Chapter 15, pp. 252—3

The Committee recommends that the Government provide funding for an employment incentive and professional development scheme to assist financial institutions, such as the Traditional Credit Union, provide employment and educational opportunities for Indigenous people in the financial services sector. Such a program could build on a number of Commonwealth projects in existence designed to assist Indigenous people find employment and to upgrade their skills. The program, however, would be specifically targeted to encourage Indigenous people to pursue a career in the financial services sector. The program would be of benefit not only to individuals but to Indigenous communities where there is a need to have people who understand how Australia's banking and financial services industry works.

**Recommendation 26**

Chapter 15, p. 253

The Committee recommends that the banking industry take a far more active and constructive role in improving the level of financial literacy for all Australians but particularly among Australia's Indigenous people. It recommends that the ABA examine closely the work being undertaken in Canada by the Canadian Bankers' Association with a view to adopting similar practices.

**Recommendation 27**

Chapter 16, pp. 273—4

The Committee recommends that the Australian Government continue funding projects such as the Family Income Management Plan. It, however, recommends that the Australian Government, relevant State and local governments and the banking industry work with Indigenous communities to map out a plan that would use the successes already achieved in trials as a platform on which to build a more coherent and integrated policy for the economic independence of Indigenous people. The work done by the Tangentyere Council, the TCU and the Cape York Community should be stepping stones leading to even greater and lasting success in advancing the economic welfare and independence of Indigenous Australians.

**Recommendation 28**

Chapter 16, p. 278

The Committee recommends that a member from the Indigenous community, who is able to represent the interests of Indigenous people living in remote areas of Australia, be appointed to the RTC Board.

In addition, the Committee recommends that the RTC Board's Charter be amended to recognise specifically the need for the provision of services to remote Indigenous communities.

**Recommendation 29**

Chapter 17, p. 293

The Committee recommends that the forum established under the banking code of practice, which comprises consumer, small business and banking industry representatives, meet to consider and report publicly on the jurisdiction of the Banking and Financial Services Ombudsman and whether it should be broadened to examine

complaints about the difficulties encountered by consumers in accessing banking services.

**Recommendation 30**

Chapter 17, pp. 293–4

Rather than suggest the development and imposition of community service obligations, the Committee has recommended a number of amendments to the current Banking Code of Practice which would in effect set down minimum standards of behaviour expected of the banks. The Committee recommends that the banking industry move quickly to incorporate them in its code of practice.

The Committee recommends that while the banking industry is considering amendments to the Banking Code of Practice, the Australian Government provide further impetus to this process by consulting with all sectors of the banking industry on progress toward improving the industry's code of practice.

The Committee recommends that should progress falter on the banking industry improving its code of practice, the Government take a stronger stand by considering imposing community service obligations on ADIs with an independent regulatory body to monitor and report breaches of the obligations.

**Recommendation 31**

Chapter 17, p. 297

The Committee recommends that the Australian Government consider ways to collect, analyse and publish data on the state of business activity in rural, regional and remote Australia; the availability of venture capital or seed funding to these areas; and the contribution that financial institutions are making to the commercial development of country Australia.

**Recommendation 32**

Chapter 17, p. 304

The Committee recommends that the banking industry look closely at the disclosure requirements on financial institutions in the UK, USA and Canada regarding their involvement in providing finance to disadvantaged districts with a view to developing a disclosure regime for Australian banks. The intention of the regime would be twofold. Firstly to provide an accurate picture of the lending practices of banks to disadvantaged areas and secondly as an incentive for banks to assume a more active and constructive role in assisting residents in disadvantaged areas, especially in country Australia, with their financial needs and to help invigorate their local economy.

**Recommendation 33**

Chapter 17, p. 304

The Committee recommends that the Department of the Treasury also look closely at the disclosure requirements on financial institutions in the UK, USA and Canada in regard to their involvement in providing finance and other assistance to disadvantaged districts. Further that the department:



- monitor and determine whether the disclosure practices adopted by the banking industry in Australia ensure that adequate information is available about the contribution that individual financial institutions are making to assist rural, regional and remote Australia and whether the disclosure regime is encouraging banks to become more involved in the economic development of such areas;
- determine whether the introduction of a rating system as specified in the CRA and outlined in the UK Task Force recommendation to the Chancellor of the Exchequer would have merit; and
- consider whether disclosure requirements on the activities of individual financial institutions in rural, regional and remote Australia should be required by legislation.



# CHAPTER 1

## INTRODUCTION

### **Establishment of the inquiry**

1.1 In March 1999, the House of Representatives Standing Committee on Economics, Finance and Public Administration tabled a report, *Regional Banking Services: Money too far away*. The report strongly encouraged service providers, governments and communities to work together to develop strategies aimed at ensuring that rural and regional communities have access to the financial services they need.

1.2 The subsequent years witnessed further change in the banking industry as technological developments continued to spearhead advances. The Parliamentary Joint Committee on Corporations and Financial Services considered that it was time to assess whether government and service providers have achieved effective outcomes in the way financial services are delivered to country Australia and how communities in these areas are responding to changes in the delivery of such services.

1.3 On 25 July 2002, the Chairman of the Parliamentary Joint Committee on Corporations and Financial Services announced that the Committee had agreed to inquire into the level of banking and financial services available to Australians living in rural, regional and remote areas of the country. The inquiry was to place particular focus on:

- (a) options for making additional banking services available to rural and regional communities, including the potential for shared banking facilities;
- (b) options for expansion of banking facilities through non-traditional channels including new technologies;
- (c) the level of service currently available to rural and regional residents; and
- (d) international experiences and policies designed to enhance and improve the quality of rural banking services.

### **Conduct of the inquiry**

1.4 The Committee advertised the inquiry in all capital cities, in the *Australian Financial Review*, the *Weekend Australian* and major rural magazines during the last week of July 2002, calling for written submissions to be lodged with the Committee by 30 August 2002. The Committee also wrote to relevant Commonwealth Government ministers, State premiers and Territory chief ministers drawing attention to the inquiry and inviting submissions. In addition, the Committee notified local shire councils, banks, credit unions and building societies, financial planners, consumer

associations, and organisations and people interested in matters dealing with banking and financial services in rural, regional and remote Australia.

1.5 The terms of reference and other information about the inquiry were also advertised on the Committee's internet homepage at <http://www.aph.gov.au/senate/committee/>.

1.6 A total of 133 submissions was received together with a number of supplementary ones. A list of submissions is contained in Appendix 1. All but three of the written submissions were made public documents.

1.7 Apart from the information contained in written submissions and in oral evidence presented to it, the Committee drew on a range of material contained in reports and reviews from various committees of inquiries and from comments and articles by people directly involved with banking and financial services. A select bibliography is set out at the end of the report.

1.8 After initial consideration of the submissions, the Committee commenced its program of public hearings in Canberra on 12 and 14 November 2002. They were followed by further hearings in Sydney, Melbourne, Adelaide and Darwin as well as in some regional areas including Tanunda and Jamestown in South Australia; Yarraman, Nanango, Toowoomba and Boonah in Queensland; and Daly River and Alice Springs in the Northern Territory. The Committee also made field visits to a number of small towns including Yacka and Port Broughton in South Australia and Blackbutt and Crows Nest in Queensland to inspect their banking facilities. On 5 November 2003, the Committee held a special hearing, which took the form of a round table discussion, on proposed changes to the ATM fee structure and the likely implications for country Australia.

1.9 Details of the hearings and the witnesses who appeared at them are contained in Appendix 2. The Hansard transcript of evidence taken at the hearings was made available on the internet.

## **Structure of the report**

1.10 The report reviews recent developments in the provision of banking and financial services in rural, regional and remote Australia. It assesses the direction being taken by financial institutions and the communities they serve in meeting the challenge to provide adequate banking and financial services to those in country Australia.

1.11 Although the report describes the problems experienced by people in country areas in obtaining access to adequate banking and financial services, it also discusses and gives serious consideration to practical means to improve the delivery of such services. The report is divided into four broad parts as outlined below.

1.12 *Part 1* focuses exclusively on bank branch closures. It reviews the available statistics on the network of branches that spreads across Australia and describes the underlying causes for the recent cutback of this network. It documents the effects that

the rationalisation of branches has had and continues to have on regional communities. Finally, it looks at the practices of banks when closing branches and the steps they have taken to better manage such closures.

1.13 *Part 2* surveys the much broader landscape of banking and financial services in country Australia especially the substantial structural changes taking place in the industry. It examines the statistics covering the distribution of banking and financial services in regional Australia. It looks at the way institutions such as credit unions, building societies and community banks are providing banking and financial services in regional Australia and the many different partnerships that have emerged over the last decade for delivering such services. This part of the report concludes with a discussion on the growing importance of electronic banking as a means of delivering banking and financial services to regional, rural and remote Australia.

1.14 *Part 3* draws heavily on the evidence presented in the first two parts of the report but highlights the problems confronting particular sections of the Australian population in rural, regional and remote areas of the country—older Australians and Indigenous Australians.

1.15 While drawing together the dominant themes in this report, *Part 4* focuses on the social obligations of financial institutions to the communities they serve. It explores the regulatory regimes in operation in the United Kingdom, the United States of America and Canada particularly their approach to the delivery of banking and financial services to districts or communities not well served by traditional financial institutions.

## **Acknowledgments**

1.16 The Committee wishes to express its appreciation to everyone who contributed to the inquiry by making submissions, providing additional information or appearing before the Committee at public hearings. The Committee especially thanks the Barossa Council, the Northern Areas Council, the Rosalie Shire Council, the Nanango Shire Council, the Progressive Community Crow's Nest Ltd, the Nauiyu Nambiyu Community Government Council and the Tangentyere Council for their warm hospitality.



# **PART I**

## **The Traditional Bank Branch in Country Australia**

Part I comprises three chapters which deal specifically with aspects of bank branch closures in rural, regional and remote Australia.

Chapter 2 presents and analyses the statistical data on bank branches in Australia and the rate of decline in their numbers over recent years. It identifies the reasons behind this pattern of branch closure and examines the following matters:

- the influence of globalisation on the banking industry in Australia;
- financial regulatory policy and its effect on the banking industry;
- technological developments and their influence on the way banks and their customers conduct their banking and financial affairs;
- consumer preferences; and
- demographic trends in regional Australia and their influence on bank branch closures.

Chapter 3 looks behind the statistics to gain an understanding of how branch closures affect people in rural, regional and remote Australia. It is concerned with representing the views, experiences and expectations of those who live in areas where branches have closed. It considers the effects of branch closures on individual customers, local business and the community as a whole.

Chapter 4 investigates the measures the banks have taken to manage branch closures. In particular, it looks at the development of a bank branch closure protocol and assesses its adequacy.





# CHAPTER 2

## BANK BRANCH CLOSURES IN RURAL, REGIONAL AND REMOTE AUSTRALIA

2.1 There is no doubt that over the past decade there has been a fundamental shift in the nature of banking and the way people obtain financial advice.<sup>1</sup> According to two financial commentators:

The net effect has been a transformation in the Australian financial system from a relatively closed, oligopolistic structure in the 1950s and 1960s, based predominantly on traditional bank intermediation, to a more open and competitive system offering a much wider variety of services from an array of different providers.<sup>2</sup>

2.2 One of the most telling signs of change in the Australian banking industry is the decline in the number of bank branches.<sup>3</sup> This chapter examines statistics on the number of bank branches in Australia and the rate of closure over recent years focusing particularly on regional areas. It then looks at the reasons for the closures.

### The trend in bank branch closures

2.3 Bank branch closures have occurred across the nation in both metropolitan and regional areas. The period between 1993 and 2000 saw a substantial reduction in branches by the major banks. At June 1993 there were 7,064 bank branches but within eight years this number had fallen by almost one-third to 4,789.<sup>4</sup>

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1 The literature on this matter is extensive. See for example, 'The dollars and sense of bank consolidation, bank mergers and the Trade Practices Act', ACCC Journal No. 40, p. 14; Professor Evan Jones, 'Rural Finance in Australia: A Troubled History', *Rural Society*, vol. 12, no. 2, p. 160; Malcolm Edey and Brian Gray, *The Evolving Structure of the Australian Financial System*, Reserve Bank of Australia, 1996; Siobhan McDonnell and Neil Westbury, *Giving Credit where it's due: The delivery of banking and financial services to Indigenous Australians in rural and remote areas*, CAEPR, Discussion Paper, No. 218/2001, June 2001.

2 Malcolm Edey and Brian Gray, *The Evolving Structure of the Australian Financial System*, Reserve Bank of Australia, 1996.

3 David Bell, *Committee Hansard*, 14 November 2002, p. 75, Professor Jon Altman, *Committee Hansard*, 14 November 2002, p. 79. See also Chris Connolly and Khaldoun Hajaj, *Small Business Banking: Issues Paper*, Financial Services Consumer Policy Centre, University of New South Wales, April 2002, p. 27.

4 Table 2.1. See also Reserve Bank of Australia, 'Bank Branch Trends in Australia and Overseas', *Reserve Bank of Australia Bulletin*, November 1996, p. 1; Submission by the Office of Regulation Review to the Prices Surveillance Authority's Public Inquiry into Fees and Charges Imposed on Retail Transaction Accounts by Banks and Other Financial Institutions, March 1995, p. 8 and APRA, Points of Presence, Summary of Branches, 30 June 2001.

2.4 The following table traces the steady decline in the number of bank branches since 1993 in both metropolitan and non-metropolitan areas.<sup>5</sup>

**Table 2.1—Number of Bank Branches in Australia, 1990–2001<sup>6</sup>**

Year	Metropolitan Branches		Non-metropolitan Branches		Total	
	Branches	Variation	Branches	Variation	Branches	Variation
1990	4028		2893		6921	
1991	4049	+ 21	2868	- 25	6917	- 4
1992	4032	- 17	2888	+ 20	6920	+ 3
1993	4118	+ 86	2946	+ 58	7064	+ 144
1994	4075	- 43	2672	- 274	6747	- 317
1995	3990	- 85	2665	- 7	6655	- 92
1996	3879	- 111	2629	- 36	6508	- 147
1997	3499	- 380	2622	- 7	6121	- 387
1998	3190	- 309	2425	- 197	5615	- 506
1999	3047	- 143	2311	- 114	5358	- 257
2000	2838	- 209	2165	- 146	5003	- 355
2001					4789	- 214
					4843	54
					4858	15

5 See also Reserve Bank of Australia, *Bulletin*, CO5 Points of Access to the Australian Payments System, November 2002, Table S22. See also Chris Connolly and Khaldoun Hajaj, *Small Business Banking: Issues Paper*, Financial Services Consumer Policy Centre, the University of New South Wales, April 2002, p. 27.

6 The table is based on statistics taken from Table 2.1, the House of Representatives Standing Committee on Economics, Finance and Public Administration, *Regional Banking Services, Money too far away*, March 1999; Reserve Bank of Australia, *Bulletin*, September 1999, table S29; and APRA, Points of Presence, Summary and changes from 2001 to 2002, <http://www.apra.gov.au/satistics/pop/ARIABreakdowns and Movements.xls>, 2003.

2.5 The above statistics show that the fall in the number of branches is most significant in metropolitan areas. Even so, the loss in non-metropolitan areas has been substantial. Of the more than 2,000 bank branches that have closed since June 1993 well over 750 were in non-metropolitan areas. Furthermore, the loss of full banking services as provided by a bank branch can be felt most keenly in rural, regional and remote Australia where in some cases the closure of a branch has left communities without a banking facility in their district.

2.6 The Committee particularly notes the escalation in branch closures in non-metropolitan areas between 1997 and 2001. The most recent statistics on bank branch numbers taken from APRA's records, which cannot be compared with the previous Reserve Bank figures because of the different nature of the database, show a tapering off in the rate of decline. Overall, there was a gain of 54 bank branches between 2001 and 2002 and a further increase of 15 branches to June 2003.<sup>7</sup> During this period, however, the figures show only a slight increase of 5 branches in remote and very remote areas over this two-year period.<sup>8</sup> Despite this improvement, the legacy from over 750 branch closures in country Australia endures.

**Table 2.2—Banks—Branch level of Service, 2001, 2002 and 2003<sup>9</sup>**

Points of Presence Category comparing 2001, 2002 and 2003						
Industry	ARIA Category	Branch level of service				
Banks		2001	2002	Variation	2003	Variation
	<i>Highly Accessible</i>	3289	3292	3	3324	32
	<i>Accessible</i>	811	846	35	833	-13
	<i>Moderately Accessible</i>	433	458	25	455	-3
	<i>Remote</i>	132	136	4	144	8
	<i>Very Remote</i>	103	104	1	102	-2
	<i>(blank)</i>	11	7	-4	0	-7
	<i>Total</i>	<b>4789</b>	<b>4843</b>	<b>54</b>	<b>4858</b>	<b>15</b>

7 APRA figures show that the increase in the number of branches can be attributed to the expanding network of Bendigo Bank Ltd branches. The number of branches has grown from 180 in 2001, to 329 in 2002 to a further 353 by June 2003 (see Table 4.1, p. 47).

8 Although the fall in bank branch numbers seems to have been arrested, there was a decline in the overall number of building societies and credit union branches over the same period. This matter will be taken up in chapter 8

9 APRA, Points of Presence Database, as at December 2003, ARIA Breakdowns and Movements. The term 'blank' in the table means that institutions did not know where to classify the branch. See explanation given by Mr Earl Burgess, APRA, *Committee Hansard*, 25 February 2003, p. 185. The ARIA classification is a classification of postcodes in Australia.

2.7 Although the available statistics show the declining number of bank branches, they do not give an indication of the number of communities that are without a local bank branch. The National Farmers Federation (NFF) estimated in 1998 that there were around 600 communities in rural and regional Australia without financial institutions. Statistics presented by Dr John Taylor, the Australian National University, suggest that the number of communities without access to a banking facility is higher. He noted that there are 854 discrete communities of Indigenous Australians with a population fewer than 500 that do not have a store or an administrative building where facilities such as EFTPOS and ATMs could be housed.<sup>10</sup>

## The influence of globalisation on the banking industry

2.8 People associated with the industry attribute the decline in bank branches to four major factors—public policy reforms especially financial deregulation; technological progress; changes in consumer demand; and demographic movements that have taken place over the last two decades.<sup>11</sup> Before considering these factors, the Committee discusses the influence of the global marketplace on Australian businesses.

2.9 Globalisation refers to the ‘international integration of markets and the increasing interdependence of economies of different nations’.<sup>12</sup> The transformation taking place in the banking industry in Australia is part of an overall change in the business landscape determined in large part by globalisation which has reshaped and continues to affect the way Australian companies conduct business. Globalisation is a dynamic process and developments in the international commercial world will continue to exert pressure on Australian enterprises.<sup>13</sup>

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10 *Committee Hansard*, 14 November 2002, p. 82. See chapter 11 for a more detailed discussion on Indigenous communities in remote Australia. Note also the findings of Mr Chris Sidoti, former Human Rights Commissioner, who stated that the Commission had heard that 45 shires across Western Australia have no direct access to a bank branch. The combined population of those shires is over 89,000 people. Chris Sidoti, ‘The human rights of older Australians in the bush’, Speech, Rural Ageing Seminar, Bungaree Station, 1 November 1999, p. 4 of 7 [http://pandora.nla.gov.au/pan/13170/200010711/www.hreoc.gov.au/speeches/humanrights/hr\\_older\\_au\\_bush.html](http://pandora.nla.gov.au/pan/13170/200010711/www.hreoc.gov.au/speeches/humanrights/hr_older_au_bush.html) (29 October 2002).

11 Christopher Kent and Guy Debelle, *Trends in the Australian Banking System: Implications for Financial System Stability and Monetary Policy*, Research Discussion Paper, Reserve Bank of Australia, March 1999, p. 2. See also Gary Banks, Chairman, Productivity Commission, ‘Meeting the challenge of change in regional Australia’, an address to *Renaissance of the Regions*, Institute of Public Administration Australia, Melbourne, 9 November 2000, p. 9.

12 Commonwealth of Australia, *Financial System Inquiry Final Report*, March 1997, p. 122 (The Wallis Report).

13 In 1997, the Wallis Report stated: ‘Australia has actively and irreversibly embraced globalisation...While globalisation of wholesale markets is already well advanced, most retail financial markets have scarcely been affected. It is clear, however, that the new technologies and techniques which will stimulate change are now imminent.’ Commonwealth of Australia, *Financial System Inquiry Final Report*, March 1997, pp. 6–7.

2.10 The ANZ explained the influence of world trends on Australia's banking industry:

Banks raise their capital in a global market, competing not only with other financial institutions but also with all other companies. These changes, which were not confined to Australia but occurred around the world, resulted in cost pressures and performance requirements that made it necessary for banks to change the way they operated. These changes included some 'unbundling' of cross subsidies and a shift to 'user pays', heavy investment in more convenient and cheaper electronic delivery channels, a reduction in the number of more expensive branches and automation and reengineering of many processes to make them more efficient.<sup>14</sup>

2.11 Globalisation certainly places greater demands on Australian businesses. Although it promises economic and social rewards for those that take up the challenges, others may struggle to understand, accept and adjust to the changes. It is natural for some to resist change. Mr Leon Davis, Chairman, Westpac, accepts that the 'nostalgia felt by many for the good old days of a controlled currency, protected manufacturers, cross subsidisation of infrastructure and services, centralised wage fixing etc' is understandable.<sup>15</sup> But globalisation is not going away and Australian businesses cannot quarantine themselves from developments in the international commercial world.

## **The context of branch closures**

2.12 The causes of bank branch closures are complex and are influenced by both the global market, including world-wide developments in telecommunications, as well as domestic circumstances. Although deregulation, technological advances, consumer demands and population movements are treated in the following section as distinct causes of change in the banking industry, they often interact providing further impetus for innovation. For example, advances in technology in particular have presented consumers with a smorgasbord of options in how to conduct their banking affairs.

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14 *Submission 121*, p. 3.

15 Leon A. Davis, Chairman, Westpac Banking Corporation, Deputy Chairman, Rio Tinto, 'The Social Responsibilities of Corporations', Address to the Menzies Research Centre, Melbourne, 18 May 2001. Mr Graeme Samuel, also referred to the old world of protected markets which 'engendered feelings of comfort and certainty'. Graeme Samuel, 'A Changing Australia: The Business and Social Imperatives', a presentation to the Institute of Chartered Accountants in Australia, Business Forum 2001, 21 May 2001, p. 4. John Unkles also wrote of many people who still hold onto 'a sense of nostalgia about the banks' personal service in the "good old days" and their widespread presence in rural communities'. John Unkles, 'Show me the money...and the old-fashioned service!', *Journal of Banking and Financial Services*, February 2001, p. 3.

This development has fed higher consumer expectations which in turn create a fertile environment that fosters greater innovation in technology.<sup>16</sup>

2.13 The following section examines the four major influences on the delivery of banking services in Australia:

- changes in public policy notably deregulation;
- technological developments;
- consumer preferences; and
- demographic trends.

## Deregulation

2.14 Public policy since the 1980s has meant that Australian businesses are competing for customers against the best enterprises in the world. Before the 1980s, banks in Australia were protected from competition through regulation which placed controls on activities such as bank interest rates, asset structures and the role of new lending by banks.<sup>17</sup> Banks were regulated in terms of:

the types of products they were allowed to offer and the prices they were allowed to charge. Credit was rationed through direct controls, and banks competed for business through the provision of extra services such as extensive branch networks, rather than on price.<sup>18</sup>

2.15 Under this highly regulated regime, banks built up a vast network of branches throughout the country. According to Mr Tom Valentine and Mr Guy Ford, the banks' over-extension in the regulated environment and technological developments had made physical bank outlets less necessary and led to a situation of 'disequilibrium'.<sup>19</sup>

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16 *Submission 117*, p. 2. The ABA has consistently argued that 'the decline in bank branch numbers is a consequence of competitive forces, demographic movements and changes in consumer demand that emerged in the 1980s and 1990s'. It submits branch closures have been part of the evolutionary process; that competition has driven the development of a wide range of alternative banking facilities and this level of innovation is likely to continue.

17 See for example, 'Bank Fees in Australia', *Reserve Bank of Australia Bulletin*, June 1999, p. 1. Carolyn Currie, *The Wallis Inquiry: is there any empirical support?*, <http://afbc.banking.unsw.edu.au/AFBC10/3/HTML/INDEX.HTM> p. 9, (23 December 2002).

18 Christopher Kent and Guy Debelle, *Trends in the Australian Banking System: Implications for Financial System Stability and Monetary Policy*, Research Discussion Paper, Reserve Bank of Australia, March 1999, p. 11.

19 Tom Valentine and Guy Ford. 'Bank Mergers in the Australian Financial System—Should the Pillars be Pulled Down?', *Economic Papers*, 1 December 2001, p. 49. Also under this regulated regime the practice of using interest margins to cross subsidise retail payment services was common place. The Reserve Bank explained that for much of Australia's post-Second World War history 'many banking services were provided free or at very low cost as they were cross-subsidised by the wide interest margins banks earned on their intermediation. This was most evident during the period in which bank interest rates were heavily regulated as such regulation

2.16 Deregulation of Australia's financial services industry was intended, among other things, to remove inefficiencies, improve performance and promote greater competition in the banking industry.<sup>20</sup>

### ***Financial regulatory policy***

2.17 Financial deregulation in Australia has been a gradual process with the early regulatory changes to Australia's financial systems introduced in the 1980s. The major initiatives included measures such as floating the Australian dollar in 1983; the licensing of foreign banks; the elimination of controls over interest rate and lending interests; the removal of limits on the number of new banks that could be established; and the privatisation of the Commonwealth Bank.<sup>21</sup> Mr Leon Davis, Chairman, Westpac Corporation, explained that:

The reform process allowed Australia to become internationally competitive, in part by reducing the role of Government. For the first time business values were allowed to take centre stage and the role of many of the institutions and systems that had underpinned the previous protected mixed economy, diminished accordingly.<sup>22</sup>

2.18 As deregulation started to take effect banks, the traditional providers of financial services, found themselves under pressure to increase efficiency and improve performance. In this quest for reduced costs and better efficiency, banks trimmed the number of their branches. As noted earlier under the highly regulated system, banks had built up an extensive network of branches. But it was not until the mid-1990s that banks, seeking to reduce costs by improving operating efficiency, looked seriously at pruning branch and staff numbers.

2.19 In 1997, the Financial System Inquiry Report (the Wallis Report) concluded that substantial cost savings were possible if financial institutions rationalised their distribution system so that high cost delivery channels such as bank branches undergo

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ruled out competition via interest rates. The main avenue of competition left for banks was to provide payments and other services at low, or no, charge to customers in order to attract deposits'. 'Bank fees in Australia'; *Reserve Bank of Australia Bulletin*, June 1999, pp. 1–2.

20 Reserve Bank of Australia, *Payments System in Australia*, prepared by the Reserve Bank of Australia and the Committee on Payment and Settlement Systems of the central banks of the Group of Ten countries, Basel, June 1999, p. 5.

21 Dr David Morgan, 'Securing Australia's Economic Potential', *Higgins Memorial Lecture*, address by Dr David Morgan, Economic Society of Australia, Canberra, 10 February 1999, p. 3. Australian Bankers' Association, *Selected events in the Evolution of the Australian Financial System*, <http://www.bankers.asn.au/ABA/adminpages/AdminViewAnArticle.asp?ArticleID=101> (21 October 2003).

22 Leon A. Davis, Chairman, Westpac Banking Corporation, Deputy Chairman, Rio Tinto, 'The Social Responsibilities of Corporations', Address to the Menzies Research Centre, Melbourne, 18 May 2001.

consolidation.<sup>23</sup> But the process of cutting back bank branches was already in train by the time the Wallis inquiry published its findings. Statistics show that the number of bank branch closures rose steeply during 1996–1997, with more than 380 branches closing their doors, and reached a peak in 1997–1998 with over 500 closures.<sup>24</sup>

2.20 In the face of on-going competitive pressure, banks have continued to rationalise branch networks.<sup>25</sup> Mr John McFarlane, CEO, ANZ Banking Group, explained simply that ‘we had too many branches, not just us but all of the banks in Australia. And it was quite natural for us to get down to a core holding of branches.’<sup>26</sup>

2.21 According to the ANZ:

The ability of banks to provide traditional face-to-face branch banking services to smaller communities in both metropolitan and non-metropolitan locations has been eroded, particularly over the past decade, by the competition banks have faced following deregulation of the industry which began in 1983 with the floating of the Australian dollar.<sup>27</sup>

2.22 The ANZ also noted that deregulation coincided with ‘a technological revolution that enabled specialist suppliers of financial services, many of whom operated without the expense of nation-wide branch networks, to undercut banks’.<sup>28</sup> Moreover, consumers were becoming more sophisticated, computer literate and comfortable with the newer electronic delivery channels.

2.23 Most commentators concur with this view about the effects of technological advances and place technology alongside deregulation as a major influence behind branch closures. In their view, the reduction in bank branch networks in large measure reflected pressures for branch rationalisation driven by technological progress and a move away from the earlier over-expansion which had been used to attract customers in the heavily regulated environment.<sup>29</sup>

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23 Commonwealth of Australia, *Financial System Inquiry Final Report*, March 1997, pp. 201–12. The Report stated that it appears as though ‘Australian financial intermediaries have too many branches’, p. 210.

24 See Table 2.1 and also Reserve Bank of Australia. C05 Points of Access to the Australian Payments System.

25 See KPMG, *Small Business Banking in Australia*, A Research Report, February 2002, p. 7.

26 John McFarlane, interview, ‘Business Sunday’, 8 November 1998.

27 *Submission 121*, p. 3.

28 *ibid.*

29 Christopher Kent and Guy Debelle, *Trends in the Australian Banking System: Implications for Financial System Stability and Monetary Policy*, Research Discussion Paper, Reserve Bank of Australia, March 1999, p. 16.



## Technological developments

2.24 The growing use of electronic banking from EFTPOS to the Internet has transformed the way people carry out their banking. Technological change presents the consumer with a growing range of options in how to conduct their most basic banking transactions.

2.25 In 1996, Mr William Ferguson, a Banker, observed:

From only a few years ago, when bank passbooks were slipped down a chute for signature verification, when account balances were depicted in neat handwriting and bank managers decided whether to grant loans on the basis of the length of time applicants had been clients, not only of the bank, but of particular branches, we have come a long way.<sup>30</sup>

2.26 Since then, improvements in information technology have dramatically influenced the provision of financial services. The use of ATMs and EFTPOS has increased substantially and telephone banking and the internet are now accepted as part of everyday banking. The pace of such change is rapid and drives the growing demand for electronic trading. Irrevocably Australia's economy is undergoing profound change driven by technological innovations which have led to a reduction in the cost of providing some financial services and made readily available a range of new products and delivery systems. According to Professor Ian Harper:

Like their counterparts around the world, Australia's major banks are working through the most significant technological revolution in their history. They simultaneously face the lowering of natural and legislative barriers to competition from offshore as well as the burgeoning impact of financial markets offering substitutes for their traditional balance sheet products, e.g., managed funds in place of term deposits.<sup>31</sup>

2.27 Technological innovations are proving popular with customers who are taking up new service channels with enthusiasm. This leads to the third major force behind

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30 William Ferguson, 'A Banker's Perspective on the Future of the Financial System' Reserve Bank of Australia, 1996, p. 199. Despite the high rate of technological progress during the early 1990s, the Wallis Inquiry in 1997 saw the necessity for financial markets to demonstrate commitment and vision to introduce electronic commerce. It suggested that technology driven innovation was profoundly reshaping the financial services industry and that 'The development of networks and improved communications infrastructure is lowering the cost of financial services activities substantially increasing capabilities and choice. It is introducing a range of new participants...and challenging the role of traditional suppliers and intermediaries.' Commonwealth of Australia, *Financial System Inquiry Final Report*, March 1997, p. 117. See also Carolyn Currie, *The Wallis Inquiry: is there any empirical support?*, University of Technology, Sydney, p. 7, <http://afbc.banking.unsw.edu.au/AFBC10/3/HTML/index07.html> (23 December 2002).

31 Ian R. Harper, Professorial Fellow, Melbourne Business School and Financial Services Consultant, Blake Dawson Waldron, *Globalisation and the Australian Financial System*, <http://www.blakedawsonwaldron.com/areas/fsr/papers/globalisation.htm> p. 3 of 5, (30 December 2002).

bank closure—a shift in consumer demands. Again this cannot be considered in isolation.

## **Changes in consumer preferences**

2.28 In 1996, William Ferguson argued that the main push for change would come from consumers. He stated:

It will be the services that the end-users want, the products they like, the style of delivery which is most convenient to them and whether the relationship is transaction-specific or long-term, which will primarily dictate how the provider responds; not, by and large, the provider determining what the customer needs.<sup>32</sup>

2.29 The major banks have no doubts that consumer choice is a significant force shaping their decisions to close branches. In citing the reasons behind the closure of 56 of its regional branches, the Australian National Bank (the National) explained that the transformation of the regional and rural network is being undertaken as a result of ‘rapidly changing customer preferences and a noticeable decline in the number of over the counter transactions’. It suggested that customers have made known that they want a convenient banking service that suits their needs.

### ***Growing consumer demand for electronic banking***

2.30 The National’s transaction data shows that rural customers, including farmers, are moving towards electronic forms of banking, particularly in relation to internet, telephone banking and EFTPOS services.<sup>33</sup> The National noted that since 1999, the number of ‘over the counter’ transactions has dropped from 25 per cent of its total transaction volume to less than 9 per cent. In relation to rural customers, ‘over the counter’ transactions now make up only 12 per cent of its total rural transaction volume.<sup>34</sup>

2.31 In line with the National’s experience, Westpac maintained that more than 90 per cent of banking transactions are undertaken outside of branches. Moreover, it noted that customer preference for easier and more convenient means of doing their banking was encouraging further innovation. It stated:

More than ever, our customers are telling us they want to be able to access ATM, EFTPOS, Telephone and Internet banking services quickly, easily and cheaply.<sup>35</sup>

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32 William Ferguson, ‘A Banker’s Perspective on the Future of the Financial System’, Reserve Bank of Australia, 1996, p. 195.

33 *Submission* 118, p. 15.

34 *Submission* 118, p. 2. See also National, Media Release, 4 April 2002, *National to change its regional and rural network—4 April 2002*, [http://www.national.com.au/About\\_Us/0,,7812,00.html](http://www.national.com.au/About_Us/0,,7812,00.html) (30 December 2002).

35 *Submission* 110, p. 8.

2.32 Consistent with the trends identified by individual banks, the Australian Bankers' Association (ABA) maintained that over the last decade bank customers have moved from undertaking only 10 per cent of their transactions outside a bank branch, to now conducting about 90 per cent of their transactions outside the branch.<sup>36</sup>

2.33 These figures register an unmistakable message from consumers that they prefer, and have come to expect, the ease and convenience of transacting basic banking services through the newer service channels. Further, they indicate that electronic banking is likely to grow in popularity. As noted by Mr Robert Joss, who works in the banking industry:

Having the ability to deposit a cheque and withdraw funds at an ATM at 11.00 pm rather than between 10.00 am and 3.00 pm at a branch is a new, and obviously more convenient way of facilitating payments between parties.<sup>37</sup>

2.34 Although technology offers the prospect of much greater convenience and lower transaction costs, Mr Joss observed that there is a downside to this development:

What banks cannot afford to do is to keep the old branch network for facilitating payments and simply add on the new technology. New players in the market will invest only in the new technology and their costs will be commensurately lower. For banks to be able to compete they must somehow substitute the new for the old, to arrive at a much better balance of costs and consumer choices. Customers are not prepared to pay the cost of operating both the old and new technologies.<sup>38</sup>

2.35 Clearly, over the last decade banks have responded to the major shift in consumers wanting convenience, better value and more choice regarding their financial services.<sup>39</sup> The new technologies are leaving old practices in their traces. The economic pressure on banks is to win market share, maintain profitability and minimise risks and to do so means that they must remain at the forefront of technological advances. One of the costs, however, is in reduced over-the-counter service.

### ***Banks investing in new technology***

2.36 While consumer demand is driving the introduction of new technology, the impetus for electronic banking is also coming from the banking industry which appreciates the cost savings it offers.

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36 *Submission 117*, p. 4.

37 Robert Joss, 'Developments in the Business of Banking', Reserve Bank of Australia, 1996, pp. 190–191.

38 Robert Joss, 'Developments in the Business of Banking', Reserve Bank of Australia, 1996, pp. 190–191.

39 *Submission 117*, p. 2.

2.37 The ABA pointed out that face-to-face services are expensive to deliver because of the substantial costs in hiring and training teller staff, with renting premises and providing adequate security associated with managing cash deposits. It argued that the switch to electronic banking means that maintaining multiple facilities has become less viable in small towns. Put simply, the emergence of electronic banking as a popular carrier of transactions creates difficulties for some small towns to sustain over-the-counter banking facilities.<sup>40</sup>

### **Summary**

2.38 ATMs, phone banking, EFTPOS machines and Internet banking offer easy access to many banking transactions. The growing popularity with customers together with the advantage of lower costs has secured electronic banking a prominent place in the delivery of financial services. Realising the value in providing customers with electronic banking facilities, banks have invested in the new technologies such as telephone, Internet and a range of electronic bill payment systems.<sup>41</sup>

2.39 The substantial investment in new technologies through the 1980s and 1990s and which continues today, has enabled customers to bank 24 hours per day, 7 days a week and from the comfort of their own home or workplace. Most witnesses and financial commentators accept that there is no going back—the trend toward even greater innovation in electronic banking is irreversible. The trade-off, however, is the loss of bank branches offering traditional over-the-counter services.

### **Demographics**

2.40 Many attribute the withdrawal of banking services in country areas to population shifts away from regional Australia. Most statistics show the tendency for Australia's population to concentrate in major cities, coastal areas and the larger regional towns. This trend is consistent with developments that have occurred since the middle of last century.<sup>42</sup>

2.41 The Australian Bureau of Statistics (ABS) maintains that in 1911, 43 per cent of Australians lived in rural areas. This proportion fell steadily until 1976 when only 14 per cent of the population lived in rural areas. From this period until sometime during the first half of the 1990s the population in country Australia began to grow slightly. The 1996 census, however, indicated that the population in rural areas as a proportion of the total population had again started to fall.<sup>43</sup>

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40 *Submission* 117, p. 13.

41 *Submission* 117, p. 6.

42 *Submission* 117, p. 2.

43 Year Book Australia 2002, population distribution,  
<http://libas1.parl.net/abs/abs@nsf/Lookup/FE3FA39A5BF5AA5AC256B350010B>  
(3 January 2003).

2.42 The population in some regional areas of Australia is shrinking not only as a proportion to the total population but in real terms. The ABS noted that ‘some areas of Australia have experienced significant population decline in recent years’. While some losses have occurred in established suburbs within capital cities and major urban centres, it argues that the fastest population decline has occurred in rural areas. Most of this decline has been caused by net migration loss<sup>44</sup> and is associated with technological, social and economic changes and industry restructuring in local economies.<sup>45</sup>

### ***The drift in population to larger regional centres and the ‘sponge city’ effect***

2.43 There are also discernable patterns to population movements across inland regional Australia. While the population in regional Australia is in general decline as a proportion to metropolitan Australia, some areas are defying this trend. Indeed some regional centres and coastal towns are among the fastest growing areas in Australia.<sup>46</sup> The Interim Report of the Steering Committee on the Summit on Regional Australia found that economic growth has been uneven in regional Australia. Some regions have experienced high growth as a result of diversifying their economic base, whereas others—still heavily reliant on traditional rural sectors—have not shared in the nation’s economic growth over the past few years.<sup>47</sup>

2.44 The ABS recorded that a number of regional centres gained population in the decade ending June 2001. Centres such as Maitland, and Queanbeyan in New South Wales, Greater Geelong, Greater Bendigo and Ballarat in Victoria, Cairns in Queensland, Port Lincoln in South Australia and Albany in Western Australia

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44 According to an ABARE study ‘the number of people who migrated from inland and remote regions during 1991–96 exceeded those who migrated to these regions. In remote regions, net migration loss in the five years to 1996 represented 8 per cent of the population in these regions in 1991’. Jayne Garnaut, Peter Connell, Ray Lindsay and Veronica Rodriguez *Country Australia; Influences on Employment and Population Growth*, ABARE Research Report 01.1, 2001, p. 6.

45 Year Book Australia 2002, population distribution, <http://libas1.parl.net/abs/abs@nsf/Lookup/FE3FA39A5BF5AA5AC256B350010B> (3 January 2003). For example the populations of Jabiru and Tennant Creek declined between 1996 and 2001 by 4.4 % and Tennant 3.7 % per year respectively due to the closure of mines in the area. The significant losses in population of Coolgardie (down 1,400 people at an average rate of -5.3 % per year), Leonora (down 790 people or -6.3 % per year) and Dundas (down 410 people or -5.5 % per year) are also attributed to changes in employment conditions in the mining industry. ABS, *Regional Population Growth, 1991 to 2001*. Catalogue No. 3218.0, Canberra, July 2002, p. 33.

46 See for example, Paul Collits, ‘Small Town Decline and Survival: Trends, Success Factors and Policy Issues’, First National Conference on the Future of Australia’s Country Towns, The Regional Institute Ltd, <http://www.regional.org.au/au/countrytowns/global/collits.htm> (13 January 2003).

47 The Interim Report of the Steering Committee on the Summit on Regional Australia, *Economic and Business Development in Regional Australia*, April 2000, p.3 of 6, <http://www.dotrs.gov.au/regional/summit/outcomes/committee/report/development.htm> (29 October 2002).

experienced growth in the five years to June 2001, as they did in the previous five-year period.<sup>48</sup>

2.45 Mr Bernard Salt, a demographer, demonstrated this unevenness in population growth in country Australia by comparing Hervey Bay and Junee. He wrote:

In 1971 both had about 5,000 people. In 2000 Junee still had 5,000 but Hervey Bay is now 45,000. Hervey Bay is the most remarkable town on the Australian continent in terms of its population growth—because of a value shift in the nation in the 1980s. It was more than retirement and tourism, it was a new strain of tourism that emerged—eco-tourism, based on Fraser Island, and whale-watching.<sup>49</sup>

2.46 The ABS also noted the tendency for some regional centres to experience growth in population at the expense of some of the smaller outlying towns. People from surrounding regions were gravitating to these centres because of factors such as agricultural restructuring and mechanisation, resulting in larger and fewer farms and lower demand for farm workers. Furthermore, improvements in transport and communications, which allow industries and services in the regional centre to cater to a wide area, contributed to the growth of these centres.<sup>50</sup>

2.47 It cited Mildura which grew by 3,100 people and Dubbo by 1,900 during the 1994–99 period as examples of where the decline in employment and services in outlying areas had encouraged migration to the inland regional centres. Most Statistical Local Areas (SLAs) surrounding these centres experienced population decline.<sup>51</sup>

2.48 Mr Salt also commented on this ‘sponge city’ effect where larger regional centres have soaked up the population loss from the farm amalgamations in surrounding small and remote towns.<sup>52</sup> He used the example of Wagga in the NSW Riverina where the number of Waggarians rose by 12,416 or 28 per cent in 22 years to

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48 Australian Bureau of Statistics, *Regional Population Growth, Australia and New Zealand*, Catalogue no. 3218.0, Canberra, 2002

<http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/NT0000B60E> (30 October 2002).

49 Bernard Salt, ‘Emerging Australian demographic trends’, *On Line Opinion*, 15 May 2001, <http://www.onlineopinion.com.au/2001/May01/Salt.htm> (13 January 2003).

50 Australian Bureau of Statistics, *Australian Social trends 2000*, Population—Population Distribution: Regional populations: growth and decline, p. 4 of 8.

51 Australian Bureau of Statistics, *Australian Social trends 2000*, Population—Population Distribution: Regional populations: growth and decline. Year Book Australia 2002, population distribution, <http://libas1.parl.net/abs/abs@nsf/Lookup/FE3FA39A5BF5AA5AC256B350010B> (3 January 2003).

52 The Productivity Commission observed this ‘sponge city’ phenomenon in its 1999 report, Productivity Commission, *Impact of Competition Policy Reforms on Rural and Regional Australia*, Inquiry Report, Report No. 8, 8 September 1999, p. xxv. Bernard Salt cited regional centres such as Dubbo and Wagga Wagga in NSW, Horsham in Victoria and Narrogin in Western Australia.



reach 56,566 in June 1998. He goes on to observe, however, that communities within a 100km radius of Wagga fared differently in the 22 years to June 1998 with population losses between 4 and 29 per cent.<sup>53</sup>

2.49 According to Mr Salt, rural ‘losers’ are scattered throughout all states and some of the losses are associated with changed mining practices (west coast), and with changes in local infrastructure (downsizing Peterborough railway workshops).<sup>54</sup> He concluded, however, that ‘for the most part, the areas of consistent and significant loss are attached to the Australian wheatbelt’. His analysis showed that in such areas the pressure for farm aggregation was greatest, and the impact of the sponge effects of larger cities was most severe.<sup>55</sup>

### ***Population shifts and bank branch closures***

2.50 The banks draw a direct connection between population trends and the demand for their services. The ABA argued that the thinning population in many towns means that the ‘economic case for maintaining service levels delivered in-person in each location has also declined’.<sup>56</sup>

2.51 Dr Gordon Forth also found a close relationship between population loss in rural areas and the level of banking services available to small towns. He wrote:

Though the loss of services, such as the closure of the local bank, cinema or pharmacy, are highly significant in explaining small town decline, they are essentially the consequence of both population loss and reduced demand for essential and non-essential services.<sup>57</sup>

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53 Bernard Salt, ‘People erosion hits small-town wheat lands’, the *Australian*, 25 February 2000. He also noted that ‘perhaps more importantly, the number of people added to Wagga over this period is spread across all age groups in a way that aligns with the average for Australia as a whole’. Similarly, he called Dubbo a de facto capital city whose population continues to grow while outlying towns such as Warren experience a drop in population. Bernard Salt, ‘Emerging Australian demographic trends’, *On Line Opinion*, 15 May 2001, <http://www.onlineopinion.com.au/2001/May01/Salt.htm>

54 Bernard Salt, ‘People erosion hits small-town wheat lands’, the *Australian*, 25 February 2000. He provided the following statistics—the Shire of Windouran near Hay in the Riverina lost 36 per cent of its population; the Shire of Buloke in the Victorian Wimmera lost 34 per cent; the Shire of Isisford in south-west Queensland lost 35 per cent; and the District Council of Peterborough in South Australia lost 31 per cent; all between 1976 and 1998.

55 *ibid.*

56 *Submission 117*, p. 4. In research for the Hawker Inquiry (1999) into regional banking services, the ABA commissioned work from KPMG that showed major demographic changes occurring in regional Australia, whereby small towns were getting smaller and larger regional towns and cities were getting larger. The research also showed a demographic shift to coastal areas.

57 Dr Gordon Forth, Director, Centre for Regional Development, Deakin University, Warrnambool Victoria, *Following the Yellow Brick Road and the Future of Australia’s Declining Country Towns*, p. 5 of 10, <http://www.regional.org.au/au/countrytowns/ideas/forth.htm> (11 February 2003).

2.52 A recent study conducted by the National Centre for Social Applications of GIS, University of Adelaide, supported the contention that changing demographics in some country areas have seriously undermined the ability of banks to sustain the level of services that the traditional branch had delivered. It asserted:

The reality is that both the demographics of many non-metropolitan areas no longer are sufficient to support the same level of service provision as the past and improved mobility and information technology make it possible to access more distant services more readily than in the past.<sup>58</sup>

2.53 The ANZ concurred with this view. It explained that the higher representation of non-metropolitan areas in the change in face-to-face banking service levels largely reflects more significant demographic changes, which have been occurring in these areas over time.<sup>59</sup>

### ***Regional shopping hubs and smaller towns***

2.54 Not only are people moving to regional centres but those living in outlying towns are drawn to major centres to conduct their financial affairs.

2.55 An ABARE survey found that there was a significant tendency by farmers to use banking services in regional hubs rather than in their local towns. In 1990 an estimated 53 per cent of farmers reported using financial services in regional centres with 36 per cent using their local town. By 2000, however, 60 per cent of farmers were using banking services in their regional centres with only 27 per cent continuing to use their local town. The study concluded that this outcome was consistent with the closure of branches in small towns in this period.<sup>60</sup>

2.56 The Tamworth City Council added weight to the ABARE findings that residents from the smaller outlying towns are inclined to conduct business in the regional centres. It noted that ‘it is a common fact that citizens from our neighbouring communities namely:

Parry Shire	population 11,837
Manilla Shire	population 3,256
Barraba Shire	population 2,169
Bingara Shire	population 1,982
Gunnedah Shire	population 12,480

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58 *Background Paper for the Parliamentary Inquiry into the Level of Banking and Financial Services in Rural and Remote Australia*, October 2002, p. 29, Appendix B to *Submission 117*.

59 *Submission 121*, p. 5. See also, Australian Bureau of Statistics 2002 Year Book Australia, p. 84.

60 Australian Bureau of Agricultural and Resource Economics (ABARE), *Australian Farm Surveys, Report 2001*, Canberra, p. 37.



Quirindi Shire	population 4,752
Nundle Shire	population 1,359
Walcha Shire	population 3,200

commute to Tamworth for business, medical, schooling, family, social and personal reasons. It is proper to assume that when these citizens do visit Tamworth (or other centres such as Armidale and Inverell), they would plan to carry out personal or business banking activities and any other financial services required as part of their trip'.<sup>61</sup>

2.57 The evidence clearly suggests that local residents of small country towns are tending to bypass their town to travel to the major centres to shop due in part to a loss of services in their local communities and also their desire to access a broader range of products.

2.58 Rural areas where larger regional centres are growing at the expense of smaller towns, pose problems for service providers who face difficult decisions about commercial and social obligations to those in smaller towns. The loss of consumers to the larger regional centres erodes the customer base of banks in the smaller communities making their economic viability even more precarious.

### ***Questioning the nexus between population trends and branch closures***

2.59 It should be noted that while the evidence indicates that there is a strong link between population growth and the presence of a bank branch, some submissions argued otherwise. The Surf Coast Shire Council noted that, unlike many other rural centres that have lost their banks, Winchelsea has been steadily growing. It suggested that with the foreshadowed upgrading of the Princes Highway the outlook for Winchelsea is for continued growth—and yet no major bank has the commitment or foresight to provide this essential service to the town (other than ATM facilities through the local post office).<sup>62</sup>

2.60 The Manilla Shire Council and the Barossa Council together with other local councils expressed the same bewilderment at banks closing branches in regions of economic or population growth. The Barossa Council noted simply 'there could not be a more successful area in the state and perhaps in the country, and yet the branches are gone'.<sup>63</sup>

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61 *Submission 93*, p. 2.

62 *Submission 9*, p. 2.

63 *Submission 91*, p. 2 and Councillor David Lykke, *Committee Hansard*, 13 March 2003, p. 419. See also evidence by Ms Kerry Yu, Municipal Association of Victoria, *Committee Hansard*, 26 February 2003, p. 284 who concluded, 'It is not just out in Hindmarsh, in the backblocks where the population is declining and ageing that the banks are pulling out'.

2.61 The Summerland Credit Union Limited observed a similar occurrence. It stated that over the past ten years at least 26 bank branches had closed within the Richmond and Tweed Valleys, with services being severely reduced in many others. It claimed that this is happening, despite the region's continuing strong growth, as 'the "seachange" phenomena continues to see metropolitan babyboomers and others seek a better lifestyle in regional areas'.<sup>64</sup> From its perspective, it was clear that:

...the banks have different views as to what constitutes a profitable branch and have not given a lot of thought to the changing dynamic of certain areas. For example, the Tweed Valley has been identified as the fastest growing region within NSW (if not the whole of Australia) and yet the banks have heavily reduced their presence throughout the valley.<sup>65</sup>

2.62 Clearly banks have withdrawn or reduced their services because of what they perceive as a less profitable economic environment in particular localities. While population trends are a reliable indicator of the economic health of a community, banks, when deciding to either close or open a branch, consider the overall strength of demand for their services and the likely return on their investment. For example, John McFarlane, CEO, ANZ explained that they were more likely to consider opening branches in the more rapidly growing areas such as the Gold Coast which he regarded as a 'tremendous growth opportunity'.<sup>66</sup>

2.63 In other words, there are some areas in regional Australia that will attract banks to their locality while others offer little commercial incentive for banks to stay. This is an assessment made by individual banks—they may not always be right—and their interpretation of profitability may well differ from those of their customers.

## Conclusion

2.64 Since 1994 there has been a steady decline in the number of bank branches. Deregulation, technological progress, shifts in consumer demands and demographic trends have contributed to the pressure on banks to trim their branch networks. They now operate in a highly competitive environment shaped in large measure by the global market. This competitive market has changed the face of banking as financial service providers implement ways to increase efficiency, improve performance and reduce costs. With the help of advances in technology and shifts in consumer preferences, banks are now able to offer consumers a range of services. The tradeoff, however, has been the rationalisation of bank branches. Some localities in regional, rural and remote areas simply can not attract or retain their local branch. From the banks' point of view the volume of business is not sufficiently profitable and they have taken the commercial decision to withdraw their services.

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64 *Submission* 116, p. 1.

65 *Submission* 116, p. 2.

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

2.65 The following section seeks to understand the effects of branch closures on the community. It identifies and describes the consequences of such actions on the people living and working in country areas where banks have withdrawn or downgraded their services.



## CHAPTER 3

### IMPACT OF BANK BRANCH CLOSURES ON THE COMMUNITY

3.1 Banks have been part of Australia's history since 1817 when the Bank of NSW first opened its doors. They have played an integral role in the progress of the nation and in promoting the development of country areas. The local bank branch has stood at the centre of commercial life in country towns for decades—a familiar, reassuring, solid and valued part of the community. An abandoned bank building in a country town has deep significance for local residents.

3.2 This chapter draws on the experiences and expectations of those living in regional Australia to understand the effects that branch closures are having on them and their community. It gives particular attention to:

- the context of branch closures including the overall provision of services to regional, rural and remote Australia; and
- the effect of branch closures in country Australia on
  - local residents,
  - local business, and
  - the community.

#### General decline in the provision of services

3.3 Some regard the withdrawal of bank services as part of a general erosion of the provision of services to country areas of Australia.<sup>1</sup> Mr Leon Davis, Chairman, Westpac Banking Corporation, described this process:

In a thousand towns and villages in rural and remote Australia, the future appears increasingly bleak. Jobs, schools, banks, post offices, country hospitals and footy teams; all are disappearing like water holes in an extended drought. People who once saw themselves as the economic backbone of Australia and the embodiment of Australian virtues such as self reliance and endurance feel their contribution past, current and potential is forgotten or unappreciated. They feel betrayed, powerless and angry.<sup>2</sup>

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1 See for example, CPS Credit Union (South Australia) Ltd, *Submission 59*, p. 1; Shire of Victoria Plains, *Submission 49*, p. 3.

2 Leon A. Davis, Chairman, Westpac Banking Corporation, Deputy Chairman, Rio Tinto, 'The Social Responsibilities of Corporations', Address to the Menzies Research Centre, Melbourne, 18 May 2002.

3.4 The ABA also placed bank closures within the broader context of vanishing services. It stated that banks, like many other service providers including governments and government business enterprises, have responded to commercial pressures from demographic changes. It argued that the provision of banking and financial services in the country must be viewed against the background of much wider change where services such as schools, police stations, hospitals and commercial businesses like pharmacies are in decline.<sup>3</sup> It cited a paper prepared by Adelaide University which observed that:

The loss of services in parts of non-metropolitan areas has often been blamed predominantly on private sector organisations, who are depicted as being totally driven by bottom line considerations and lacking a community good element. However, the reality is that the thinning out of services in those areas has been equally apparent among government provided services. Indeed, some would argue that the government provided services—schools, health, hospitals and police especially—are bellwether services; that is, that once they are lost there is a dramatic impact on the community that flows through into other services as well as having very detrimental morale effects.<sup>4</sup>

3.5 Many local councils concurred with this broader view. The Barraba Shire Council maintained that the second biggest obstacle to growth and development of their district, after the departure of government services, ‘is the withdrawal and the perception of the withdrawal of banking and financial services by the established retail banks’.<sup>5</sup>

3.6 The Millmerran Shire Council chronicled the deterioration of services in its towns:

This community, over the past 20 years has seen the closure of the State Government Office of the Clerk of the Court, the closure of the Railway Station and the closure of the CBC and Westpac banks. The National Australia Bank continues to operate however the signs are ominous as the NAB has sold all its assets, ie land and buildings and has significantly downsized staff presence in Millmerran to one permanent and two casuals.<sup>6</sup>

It went on to state its concern that banking services in Millmerran will shortly disappear and is at a loss as to how this trend can be reversed.<sup>7</sup>

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3 David Bell, *Committee Hansard*, 14 November 2002, p. 60.

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

5 *Submission 82*, p. 1.

6 *Submission 72*, p. 1.

7 *Submission 72*, p. 1. It also stated that ‘Discussion regularly ensues at Council level with respect to the enticement of alternative banking services to Millmerran and has not discounted the option of forming a community bank, should existing services be discontinued’.

3.7 The Shire of Victoria Plains also noted that the decline of services in rural areas was not confined to banking but applies widely to the provision of services across the board. It maintained that the loss of such traditional services as Post Offices, banking, government utility services such as power, water and gas, have seen marginal operations in the smaller rural areas depart and the flow-on effect has led to the demise of country towns particularly in Western Australia.<sup>8</sup> It concluded that ‘in other than major regional centres the services currently available to rural residents is non existent’.<sup>9</sup>

3.8 There is little doubt that some areas of regional Australia are experiencing a general reduction in the provision of services.<sup>10</sup> While the subject of regional development is outside the scope of this report, the Committee recognises that the fate of banking services is inextricably caught up in the overall prevailing economic and social climate of the community they serve.

### **Branch closures and the decline in service provision to country Australia**

3.9 While it would appear that the closure of bank branches is part of the general decline in the provision of services to country Australia, it may also accelerate this trend. The Hindmarsh Shire Council clearly saw the withdrawal of a local branch as a dire signal. It stated that the closure of the last bank branch, can be the ‘beginning of the end’ for a small town.<sup>11</sup> Mr Barber from the Latrobe City stated simply that for a small community when a bank or school closes, ‘the heart stops pumping in those communities.’<sup>12</sup>

3.10 The following section looks in greater detail at the effects that branch closures have on:

- residents of districts that have lost a branch;
- local businesses; and
- the community.

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8 *Submission 49*, p. 3.

9 *Submission 49*, p. 2.

10 Also refer to the Human Rights and Equal Opportunity Commission, *Bush Talks*, Sydney, 1999, p. 1. After visiting numerous communities in country Australia, it noted that in almost every aspect of its work ‘people in rural and remote Australia generally come off second best. Distance, isolation, lower incomes and minority status all exacerbate the experience of discrimination, harassment, and lack of services and participation.’

11 *Submission 87*, p. 2.

12 *Committee Hansard*, 26 February 2003, p. 274.

## The effect of bank closures in country areas on local residents

3.11 Many submissions noted the problems a bank closure creates for individual customers. The most immediate consequences for individuals and businesses requiring personal banking and financial services is the trouble and anxiety associated with having to make alternative banking arrangements coupled with the worry and uncertainty caused by having to adapt to new ways of banking.<sup>13</sup> The problems are particularly acute if the branch is the only one remaining in the town.

### *Inconvenience and costs*

3.12 In particular, the submissions referred to the inconvenience caused by having to travel to the nearest branch.<sup>14</sup> In some cases, people have to journey a considerable distance which adds to costs and is time consuming. The expense and inconvenience can be considerable in regional areas with poor transport systems and where significant travel is involved.<sup>15</sup> The Goulburn City Council noted that as with many rural communities the smaller townships around Goulburn have a high dependency on private vehicle transport because they do not have access to public transport services.<sup>16</sup>

3.13 The Uniting Church Synod of South Australia highlighted the difficulties that some people in regional Australia could experience:

For rural areas where there are high levels of unemployment and reduced capacity to travel, the costs of banking borne by the consumer are significant. In Port Pirie, for example, the levels of unemployment are higher than the national average. Elderly people need to rely on the generosity of family and friends. For some widows in Wilmington, for example, who have banked with a chequebook for much of their lives, are now required to drive on the highway for an hour, or be reliant on someone who can drive, to get to the nearest branch in Peterborough.<sup>17</sup>

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13 See for example comments by the Murgon Shire Council, *Submission 29*, p. 1; the Victorian Farmers Federation, *Submission 104*, pp. 5–6.

14 See for example, the Macedon Ranges Shire Council, *Submission 54*, p. 1. See also, Mr Kevin Allery, *Committee Hansard*, 22 May 2003, p. 476.

15 For example the Australian Catholic Social Welfare Commission noted that rural and remote Australians have further distances to travel, greater amounts of time are required and higher fuel costs are involved. The Australian Catholic Social Welfare Commission, 'A Litany of Disadvantage', October 2000, [http://www.centacare.com.au/publications/Discussion\\_Papers/Rural\\_Communities.htm](http://www.centacare.com.au/publications/Discussion_Papers/Rural_Communities.htm) p. 4 of 17, (20 October 2002). See also *Submission 6*, p. 2; *Submission 64*, p. 1.

16 *Submission 41*, p. 1. See also the Macedon Ranges Shire Council, *Submission 54*, p. 1 and the Crookwell Shire Council, *Submission 57*, p. 2.

17 *Submission 84*, pp. 5–6.



### ***Savings and security implications***

3.14 Moreover, not being able to access over-the-counter services limits people's choices and creates circumstances where they may deposit and withdraw larger amounts of cash. The lack of access to over-the-counter banking services may also be less of an incentive to save. The Uniting Church Synod of South Australia emphasised the point that the customer bears the costs rather than the bank as a result of changing bank practices:

Banking now causes customers increased costs in fuel and time for example, and the customer is now responsible for larger cash withdrawals held for longer than previously.<sup>18</sup>

### ***Limited choices***

3.15 A number of submissions from local councils could see a direct connection between the reduction of banking services and the loss of opportunity for residents to better manage their finances. The Local Government Association of Tasmania maintained that as banks withdraw from small towns and regions, competition is lessened and the ability of members of the community to 'shop around' for the best banking option is constrained.<sup>19</sup>

3.16 Likewise, the District Council of Robe asserted that areas serviced by one bank:

- provide no competition in relation to bank fees, overdraft and credit interest rates, etc for businesses that need to be able to deposit cash;
- are limited in the availability of banking services—shorter opening hours; and
- do not always offer a full range of banking facilities.<sup>20</sup>

3.17 Worse still, as pointed out bluntly by the Goulburn City Council, 'when banking services are withdrawn there is not always the choice to commute to higher order centres'.<sup>21</sup> This means that residents have limited choice, in some cases effectively no choice, in selecting a financial services provider or range of products to suit their particular needs whether it is opening a basic transaction account, accessing facilities such as ATMs or obtaining a loan or investment advice.

### ***Financial exclusion***

3.18 While the trouble and expense of travelling long distances is an obvious and easily understood difficulty, the lack of adequate financial services, even though less apparent, may have more serious and longer term repercussions for sectors of the

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18 *Submission 84*, p. 12.

19 *Submission 43*, p. 2.

20 *Submission 30*, p. 2.

21 *Submission 41*, p. 1. See also the Macedon Ranges Shire Council, *Submission 54*, p. 1.

Australian community. The Barossa Council submitted that ‘it is the personal service that banks previously provided that is lost, particularly in rural areas’.<sup>22</sup> Those without access to face-to-face banking may find themselves on the fringes of the financial world effectively excluded from the benefits that the banking industry offers its customers. The Council of the City of Ballarat stated plainly that while people want to withdraw and deposit money, pay bills and transfer funds, they also want advice.<sup>23</sup>

3.19 A study conducted by the Financial Services Consumer Policy Centre, argued that ‘The more an individual or community is marginalised from financial services, the more likely it is that they will also be socially excluded, which exacerbates their overall civic marginalisation’.<sup>24</sup> It defined financial exclusion as:

the lack of access to financial services by individuals or communities due to their geographic location, economic situation or any other ‘anomalous’ social condition which prevents people from fully participating in the economic and social structures of mainstream communities.<sup>25</sup>

3.20 According to the study, those at highest risk of suffering financial exclusion include people on low incomes who are in receipt of social security benefits (including pensioners and unemployed), with low education, and living in depressed economic areas or rural and regional areas.<sup>26</sup>

3.21 As noted earlier the banking world has changed and there are now on offer a vast array of sophisticated products. Marianne Gizycki and Philip Lowe cited in particular the effect that the introduction of compulsory retirement savings in 1991 has had on the way people save for retirement.<sup>27</sup> Indeed, just in the area of superannuation alone, there is a growing realisation of the need for individuals to provide for their retirement rather than rely on the public purse. Financial advice is central to effective

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22 *Submission 15*, p. 2.

23 *Submission 76*, p. 2.

24 Chris Connolly and Khaldoun Hajaj, *Financial Services and Social Exclusion*, Financial Services Consumer Policy Centre, University of New South Wales, March 2001, p. 6.

25 *ibid*, p. 9.

26 *ibid*, p. 10.

27 Marianne Gizycki and Philip Lowe, *The Australian Financial System in the 1990s*, Reserve Bank of Australia, July 2000, pp. 1 and 6. They noted that ‘The increase in households’ holdings of market-linked investments, and the declining share of wealth held in deposits, has prompted banks to focus their growth strategies on funds management. In turn, this is leading to a further blurring of the distinction between different types of financial institutions, and pressure for consolidation focussed around the major banking groups. The increase in financial assets has also led to the development of markets in a wider range of debt securities, a proliferation of investment products, and a more important role for institutional investors’. They went further to state ‘Little more than a decade ago, the household sector’s major financial assets were direct claims on institutions, either in the form of bank deposits, or defined benefit pension schemes. Households held considerable institutional risk, but little market risk’.

planning but there is an increased risk that people in regional, rural and remote Australia will simply not have access to such advice.

3.22 In summary, the loss of a bank branch, especially if it is the only one in town, has wide-reaching implications for local residents. The main problems are:

- the inconvenience, worry and extra costs associated with having to rearrange or transfer bank accounts or learn new ways of banking;
- the inconvenience and additional costs involved in travelling to the nearest branch to conduct business—keeping in mind that not all residents will have ready access to their own transport and may have to rely on public transport;
- the safety, security and savings implications that arise where residents may withdraw larger amounts of cash than they normally would to tide them over until the next trip to a bank branch;
- the absence of competition leaving residents with limited choices, in some cases effectively no choice, in the range of financial services and products available to them which could lead to loss of saving or investment opportunities; and
- the lack of readily available advice from local bank staff who understand the community—this is particularly important as the provision of financial services is becoming increasingly more sophisticated and there is now a heavy reliance on self funding for retirement. With the withdrawal of financial services from country areas comes an increased likelihood that some people may find themselves effectively excluded from the financial world.

### **The effect of branch closures on businesses in country towns**

3.23 Many submissions spoke of the central role taken by banks in the community and the economic development of the town.<sup>28</sup> The Yallaroi Shire Council submitted that it is important to local business that a full range of banking services be provided and this necessitates an operational branch.<sup>29</sup> The report now turns to the effect that the withdrawal of bank branches from country towns has on local businesses.

#### ***Daily banking affairs—inconvenience and costs***

3.24 When a local bank branch closes, businesses have to deal with the same problems as residents. They experience the inconvenience and bear the added costs associated with travelling to a bank branch in another district. The Tamworth City Council made the point about the costs involved in travel for businesses:

Banks do not have to factor into their financial strategies a situation where for example a farmer or small business accountant has to travel from a rural town for example *Barraba* to a Regional City for example *Tamworth* to meet with a banker face to face in order to determine a crucial financial

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28 *Submission 9*, p. 1.

29 *Submission 23*, p. 1.

decision between that banker and the client. In this example, the small business accountant may have to allocate three to four hours of his time in travel and business. In this example, the accountant's hourly rate plus his loss of potential business whilst he is absent in a Regional Centre is a charge against his business—not a concern of his banker.<sup>30</sup>

3.25 The Victorian Farmers Federation reinforced this point. It argued that the increased costs incurred for example in additional travel to access bank services for the remaining businesses will result in margins being reduced or the additional costs being passed on to consumers through higher retail prices.<sup>31</sup>

### ***Safety and security associated with cash management***

3.26 Clearly, the withdrawal of local bank branches from country towns creates particular difficulties for businesses in the district. The security and safety concerns associated with managing cash holdings, however, are particularly significant for small business. The KPMG research report, *Small Business Banking in Australia*, found that:

For the majority of small businesses, cash, cheque, and credit cards are the main vehicles of exchange. Without effective and efficient access to money transmission systems to handle these vehicles, small business will be at a distinct disadvantage.<sup>32</sup>

It concluded that, 'For those small businesses with a high volume of cash and cheque transactions access to a "local" facility (branch, agency or franchise) is essential'.<sup>33</sup>

3.27 A number of witnesses emphasised this view and argued strongly that some form of traditional banking is important for the provision of cash to the township. Mr Walter Brooks, Council of Small Business Organisations of Australia (COSBOA), agreed that managing cash flow and making arrangements for holding cash secure is a particular problem for businesses in towns with no bank branch.<sup>34</sup> He stated that businesses are inclined to 'hold onto their takings for an additional day or two to save a trip to the regional centres.' Further, that this tendency has an impact on their normal day-to-day liquidity and 'brings about the situation where they are holding cash to pay the wages and thus exposing themselves to an increased security risk within the business premises'.<sup>35</sup>

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30 *Submission 93*, p. 2.

31 *Submission 104*, p. 5.

32 KPMG Consulting, *Small Business Banking in Australia*, A Research Report, February 2002, p. 10.

33 KPMG Consulting, *Small Business Banking in Australia*, A Research Report, February 2002, p. 10.

34 *Committee Hansard*, 26 February 2003, p. 287.

35 *Committee Hansard*, 26 February 2003, p. 288.

3.28 The Cabonne Council suggested that businesses are forced to close not only because their customers are shopping in another centre but also because the businesses can no longer do daily banking themselves. According to the council, business finds it impossible to maintain an adequate cashflow, and if the small town business is operated by a sole proprietor it would be almost impossible for him/her to deposit the daily income without closing the business itself.<sup>36</sup>

3.29 Areas that have a significant tourism industry highlight the difficulties faced by small business in managing their cash flow and their greater need for a branch service. For example, tourism attracts numerous international visitors who experience difficulty in undertaking financial transactions in some rural and remote areas.<sup>37</sup>

3.30 The Winton Shire Council submitted that there is a significant cash requirement, for example, for the opal industry where buyers arrive in town to purchase opal and can require tens of thousands of dollars with less than 24 hours notice.<sup>38</sup> Mullewa in Western Australia is promoted as the wildflower capital of the country and tourists are shocked when they arrive and there is no bank for them to visit [closed 1993].<sup>39</sup>

3.31 The District Council of Robe, which is serviced by one bank, noted that unless customers bank with the one available institution, there is no facility to deposit out-of-hours cash. It maintained that this was a problem during the peak tourism season as businesses may have to hold substantial sums of cash.<sup>40</sup>

3.32 The Committee accepts that small businesses need a convenient local facility to facilitate safe and reliable money transactions.

### ***Fall in trade***

3.33 The downgrading of services or the closure of a bank branch, especially the last branch in town, has an effect on other services in the town. Where people leave the area to conduct over-the-counter banking business in a larger regional centre, they tend while there to carry out other business. This means that the smaller towns lose customers. Many local councils and community organisations expressed their concern at the harm done to local business when the town loses its bank branch and residents tend to do their shopping in the centre where there is a bank branch.<sup>41</sup> They refer to

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36 *Submission 85*, p. [2].

37 *Submission 30*, p. 2.

38 *Submission 27*, pp. 1–2.

39 Geraldton, Western Australia, August 1998 in Human Rights and Equal Opportunity Commission, *Bush Talks*, 1999, p. 16.

40 *Submission 30*, p. 1.

41 The Country Women's Association of NSW stated that one of the consequences of the withdrawal of banks from country towns has been the slow death of the community. It observed that because adequate banking services, such as seeking a loan, investing money, renegotiation of a loan, can be done only in regional centres, it is to these localities that those with transport

the negative flow-on effects for local business and the undermining of optimism and business confidence in the town.

3.34 For example, the Rosalie Shire Council and the Lockhart Shire Council observed that the loss of banking facilities in rural and remote towns leads to a large amount of escape spending and loss of economic opportunity as people travel to other centres to do their banking.<sup>42</sup>

3.35 The Post Office Agents Association Ltd supported the contention that the withdrawal of financial services from rural communities has a highly adverse impact on the underlying viability of such communities. It maintained that it forces customers to larger regional areas, changes purchase patterns and reduces the circulation of money in the smaller communities. It submitted:

it has been the long experience of Post Office Licensees who operate their businesses in Australia's rural communities that when people are forced to travel to larger regional areas to undertake their banking services they inevitably seek their goods and services from a location close to where they obtain their cash. The absence of adequate financial services will progressively destroy small communities.<sup>43</sup>

3.36 The Guyra Shire Council described this process as the multiplier effect:

Not only are local jobs lost to the town, but ultimately families leave the town thus providing added pressure on schools, health facilities, business and other services in the town. The closure of bank branches also can result in people being required to conduct their banking business in other towns. This has the added strain on small towns, as while people conduct their banking business in other towns, they also tend to conduct an increasing amount of other business in that other town thus reducing the viability of a number of other businesses in the town which lost the banking service.<sup>44</sup>

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go. Once there for their banking, they also do their shopping, both food and often petrol. *Submission* 86, pp. 4–5. The Municipal Association of Victoria submitted that ‘Reduction of banking facilities in small regional centres has an adverse effect on local business and viability and ultimately on employment on those localities. It produces a destructive downward spiral which is rarely regenerated even though long term growth may be envisaged for the area’. The Municipal Association of Victoria, *Submission* 114, p. 4. The Australian Catholic Social Welfare Commission supported the contention that with the closure of town banks a range of other basic services such as supermarkets, butchers and chemists follow suit, suggesting a spiral of decline. The Australian Catholic Social Welfare Commission, *A Litany of Disadvantage*, October 2000, [http://www.centacare.com.au/publications/Discussion\\_Papers/Rural\\_Communities.htm](http://www.centacare.com.au/publications/Discussion_Papers/Rural_Communities.htm) p. 5 of 17, (20 October 2002). See also Murgon Shire Council, *Submission* 29, p. 2 and the Post Office Agents Association Ltd, *Submission* 77, p. 3.

42 *Submission* 16, p. 2 and *Submission* 25, pp. 1–2. See also District Council of Karoonda East Murray, *Submission* 6, p. 1 and Douglas Shire Council, *Submission* 45, p. 1.

43 *Submission* 77, p. 3.

44 The Guyra Shire Council, *Submission* 50, p. 3.

3.37 Some witnesses described the effect of branch closures on local enterprises as devastating.<sup>45</sup> Mrs Wendy Zerbst, Secretary, Nanango Progressive Community Ltd, told the Committee that ‘If we had not opened [a community bank] when we did, I would suggest that there would be possibly—a wild guess—70 per cent of the population going to Woolworths in Kingaroy to do their shopping. Where would that leave our cooperative food store?’<sup>46</sup>

3.38 A number of people have attempted to place a dollar value on the loss to a community of a bank closure. In 1997, Mr Chris Sidoti, former Human Rights Commissioner, suggested that a bank closure costs the local community an estimated \$350 per person per month as people transfer their shopping to their banking town.<sup>47</sup>

3.39 Edenhope and District Community Bank Steering Committee cited research that indicated that for every person ‘that now has to travel to a larger centre on financial business, \$4,000 per head, per annum is then spent out of our town’.<sup>48</sup> The Uniting Church Synod of South Australia stated that it has been estimated that the closure of a full time bank service takes approximately \$500,000 from a region in the first year.<sup>49</sup>

3.40 There is no doubt that the loss of a bank branch threatens to undermine the economic life and confidence of the community. Indeed, one of the major motivating forces driving community groups to retain a banking service in their area is the fear that the withdrawal of their local bank branches would trigger economic decline.

### ***Erosion of business-banker relationship and the loss of business opportunities***

3.41 The research report by KPMG, *Small Business Banking in Australia*, outlined the close relationship that develops between a small business and its bank. It noted:

A history of working with an individual small business through its growth phases and during its ups and downs, allows a bank (or other financial institution) to develop a better understanding of its track record and the capabilities of the owners.<sup>50</sup>

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45 *ibid.* See also the Lockhart Shire Council, *Submission 25*, p. 2 and *Submission 81*, p. 1.

46 *Committee Hansard*, 22 May 2003, p. 482.

47 Chris Sidoti, ‘The human rights of older Australians in the bush’, Speech, Rural Ageing Seminar, Bungaree Station, 1 November 1999, p. 4 of 7  
[http://pandora.nla.gov.au/pan/13170/200010711/www.hreoc.gov.au/speeches/human\\_rights/hr\\_older\\_au\\_bush.html](http://pandora.nla.gov.au/pan/13170/200010711/www.hreoc.gov.au/speeches/human_rights/hr_older_au_bush.html) (29 October 2002). Mr Sidoti was Australia’s Human Rights Commissioner from 1995–2000.

48 *Submission 81*, p. 1.

49 *Submission 84*, p. 12.

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

3.42 It goes on to state that as a result, ‘it is better able to respond in times of need to the requests of owners than would be the case of an alternative provider which doesn’t have the same knowledge’.<sup>51</sup>

3.43 The Steering Committee on the Summit on Regional Australia also found that impediments such as lack of awareness of new business opportunities, lack of access to capital, low take-up rates of government business assistance, and under developed business skills prevent people from turning local advantage into business ventures.<sup>52</sup>

3.44 Clearly, the withdrawal of branches deprives local business of ready access to information from banking experts who have a sound appreciation of the economic potential in the locality and likely sources of finance. Many local councils spoke of the disappointment experienced by local businesses at the growing distance between the bank and their business community as bank managers withdraw to regional centres. They are frustrated at their inability to establish and maintain the rapport needed for a sound business-banker relationship and concerned about becoming a community ‘poor in its financial knowledge’.<sup>53</sup>

3.45 According to Councillor Burgess from the Northern Areas Council, this lack of active engagement between local bank branch staff and residents and businesses means lost economic opportunities. He drew from direct personal experience to illustrate the difficulties country people have where there is no branch manager with an understanding of the locality:

I have been trying to organise the purchase of a piece of farm machinery I wanted to lease because that is what my tax adviser advised me to do, for tax reasons. But the local girl who is now trying to manage the branch had no knowledge of that. She contacted a bloke in Adelaide who had no knowledge of that and who said to me, ‘You just want to borrow money.’ I said, ‘No, it is about leasing.’ You need to have knowledge of the tax advantages associated with that—so you lose that local knowledge. That is the case because I am dealing with a bank. But if you actually have someone in the community who can talk to people and people can casually ask questions of, that knowledge is transmitted so therefore all the businesses and farms and communities can use that knowledge. Whether they use that particular bank or not does not matter because they gain knowledge and can

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

52 The Interim Report of the Steering Committee on the Summit on Regional Australia, ‘Economic and Business Development in Regional Communities’, April 2000, p. 4 of 6, Economic and Business Development in Regional Communities <http://www.dotrs.gov.au/regional/summit/outcomes/committee/report/development.htm> (29 October 2002).

53 Mayor Strohfeld, *Committee Hansard*, 22 May 2003, p. 457. He told the Committee ‘Most of the people who are in the offices in these smaller areas today have no decision-making power at all. It is all referred to the bigger regional city’. See also comments by Councillor Burgess, *Committee Hansard*, 13 March 2003, p. 433.



therefore run a better business. In theory, the wealth of the community can be enhanced by having that information available to some degree in the community at all times.<sup>54</sup>

3.46 The Surf Coast Shire Council reinforced this point:

Local managers and tellers had the local knowledge and personal understanding to assist the farming and business community in finance and banking decisions. The branch provided a 'face' to banking and the capacity to provide answers to queries on the spot, without the need for lengthy waits and redirections through computerised call centres. The local branches were the bankers for local clubs and associations of which bank staff were often members...Overall the bank played an integral part in community building.<sup>55</sup>

***Limited choice in accessing finance***

3.47 The absence of competition in the banking sector in small towns further hinders local business in structuring their affairs to best suit their needs. The Northern Midlands Council submitted that the majority of businesses in the district are small in nature and lack the resources and market power to 'shop around' for the best banking option. It claimed that they are often not in a position to fully understand the clauses and conditions in banking.<sup>56</sup> Local businesses are particularly disadvantaged in obtaining loans.

3.48 As a general observation, the Victorian Farmers Federation stated that bank closures make it more difficult and costly for farmers to access finance for business investment.<sup>57</sup> Similarly, business people regret the loss of the local bank manager who had direct knowledge of the local community and business. He was regarded as a 'significant asset to their banking relationship' who years ago was seen as 'almost a partner in many businesses'.<sup>58</sup> This was particularly so in obtaining finance. Mr Brooks, COSBOA, told the Committee:

...what small business needs is an opportunity to go to someone who can talk to them about the alternatives they have with regard to how they finance their business; if they want to get a letter of credit or something like that, what does it involve; likewise, issues such as you raised with superannuation: 'What are the alternatives there?'<sup>59</sup>

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54 *Committee Hansard*, 13 March 2003, p. 442.

55 *Submission 9*, p. 2.

56 *Submission 21*, p. 2.

57 *Submission 104*, p. 5.

58 Walter Brooks, COSBOA, *Committee Hansard*, 26 February 2003, pp. 287, 289.

59 *Committee Hansard*, 26 February 2003, p. 289.

3.49 Members of the Northern Areas Council cited examples of where banks appeared to be unduly cautious in providing finance to local businesses. Councillor Burgess suggested that in part this approach by the banks could be due to the loss of a local branch manager who would better have appreciated the circumstances of the local business.<sup>60</sup>

3.50 The Committee understands that the loss of direct contact with a bank branch cuts small local businesses adrift from the mainstream commercial world. This exclusion puts them at a disadvantage in obtaining banking and financial advice, in being aware of new business opportunities, in negotiating business deals especially bank loans and in attracting investment. It also deprives a community of a vital source of encouragement and venture capital.

3.51 Clearly, the loss of bank branches places significant pressure on small businesses which may miss out on opportunities to expand and may ultimately have to close their doors.<sup>61</sup> Although the withdrawal of banking services causes difficulties for local businesses similar to those experienced by the individual resident in some cases they have more serious repercussions. In summary, the main difficulties encountered by local businesses are:

- the inconvenience and extra costs associated with having to rearrange or transfer bank accounts;
- the inconvenience and additional costs involved in travelling to the nearest branch to conduct business—every hour on the road is a cost to business;
- the safety and security issues that arise from managing cash flows and the accumulation of excess cash waiting to be deposited—the transfer of large amounts of money exposes business to new and greater security risks;
- a fall in trade because local customers may be more inclined to shop in the town where their bank is located rather than patronise their local stores;
- the loss of economic opportunities because of the lack of readily available professional advice from bank staff who understand the region; and
- limited choice in accessing finance and in obtaining loans on terms similar to their city counterparts.

### **The effect of bank branch closures on the community**

3.52 The closure of bank branches affects not only local residents and businesses but the community as a whole. Put simply, ‘when you lose the banks you tend to lose

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60 *Committee Hansard*, 13 March 2003, p. 434.

61 See for example the work of Chris Connolly and Khaldoun Hajaj, *Small Business Banking: Issues Paper*, Financial Services Consumer Policy Centre, University of New South Wales, April 2002, p. 27.

your town—it tends to die’.<sup>62</sup> The Council of the City of Ballarat highlighted the flow-on effects of branch closures:

Traditionally the bank was not just a place to do business, but a place that was involved in the welfare of the community, not only as a local employer, but as an adviser to the community. The bank manager provided advice to the community, mostly financial, but often on other matters important to community life. In short, the bank had a leadership role in the community. That role has now disappeared and communities have lost a valuable resource.<sup>63</sup>

3.53 The Northern Areas Council drew similar conclusions about the consequences of the loss of bank staff on the social and economic life of a small town. It stated:

In a small country town a bank is more than just a central point to undertake financial transactions. It can represent up to four or five salaries that are earned in that town with that money being spent in the local supermarket, butcher, bakery, hardware store, take-away deli, garage and hotel. The families of the bank workers ‘provide’ the children to keep the local school operating and help to ‘make up the numbers’ to justify health and police services. From a community perspective the local bank manager would be the JP able to attest documents or authorise auditing of the local footy team’s accounts. As a respected member of the community the bank manager would be asked to talk to schools and local community groups and might even chair the local progress association. For some small country towns he/she might be the only qualified professional person working in the town able to assist farmers with business and financial planning.

...

Losing access to such a range of skills and experience can be quite devastating and demoralising for a small country town.<sup>64</sup>

3.54 These councils were not alone in arguing that residents value the personal contact, communication and interaction with local branch staff and that branch rationalisation has had a detrimental impact on the Australian way of life in country towns.<sup>65</sup> Taken together, the effects of a branch closure are profound on a community

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62 This sentiment was evident in many submissions from local councils. See Mayor Strohfeld, *Committee Hansard*, 22 May 2003, p. 452.

63 *Submission 76*, p. 2.

64 *Submission 34*, pp. 1–2.

65 See for example, the Rosalie Shire Council which observed ‘Money makes the world go round and when the primary money handling entity leaves a town there is an immediate and substantial loss of other businesses. What follows is a loss of government services and further facilities, to the extent that the town shrinks to a fraction of its size’ *Submission 16A*. There were many other submissions who maintained ‘that the loss of services and the associated employment have acted to further disintegrate rural communities by closing off important opportunities for social interaction and recreation’. The Australian Catholic Social Welfare Commission, ‘A Litany of Disadvantage’, October 2000,

and permeate every layer of community life. The Victorian Farmers Federation conveyed the sentiments of many of the local councils that wrote to the Committee. It submitted:

The effect of bank closures on local community confidence should not be underestimated. In addition to the economic loss to the community of the bank closure, the vacant shop in the main street has a significant demoralising effect. The empty shop will be seen every time people drive through the town.

If the bank closure is followed by reduced local economic activity and other business closures, the remaining businesses and local government will find it more difficult to attract new investment and new skilled residents to the community.

Bank closures in small rural communities can result in families moving away from town to seek alternative employment. This has flow-on effects in reduced local expenditure, and possibly reduced participation in local schools, sporting groups and community organisations may threaten their ongoing viability. If schools, sporting groups and community organisations are put at risk by job losses, the social glue which holds small communities together may disappear.<sup>66</sup>

3.55 Two enduring images used to describe the impact of the withdrawal of banks—the beginning of the end for a small town, and the slow death of the community—capture the frustration and sense of futility experienced by communities who have lost their bank branches.

## Conclusion

3.56 Bank branch closures in country towns tend to be part of an overall pattern in the reduction of the provision of services such as education, health and policing in regional Australia. Even so, for some communities the loss of a bank branch has far-reaching consequences not only for individual residents and local businesses but for the town as a whole.

3.57 The Committee cannot ignore the many submissions that recounted their experiences of branch closures. In this chapter, the report has identified the problems facing residents, businesses and the community where banks have withdrawn their branches. The main concerns were with the inconvenience and costs involved in rearranging or transferring accounts, in travelling long distances to conduct face-to-face banking, with safety and security matters arising from the lack of access to a branch, the loss of economic opportunities, limited choice in obtaining professional advice and finance, especially venture capital, and exclusion from the financial world

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[http://www.centacare.com.au/publications/Discussion\\_Papers/Rural\\_Communities.htm](http://www.centacare.com.au/publications/Discussion_Papers/Rural_Communities.htm) p. 4 of 17, (20 October 2002). See also the Manilla Shire Council, *Submission* 91.

66 *Submission* 104, p. 5.

for both individuals and businesses. These concerns stand as the main reference points for the remainder of the report which will concentrate on the initiatives being taken by banking and financial service providers to address the problems.

3.58 The following chapter deals with the more immediate difficulties created by a branch closure. It reviews the practices of the banks when closing a branch and the steps that they have taken to better manage such closures.



# 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.<sup>1</sup>

### 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.<sup>2</sup> 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.<sup>3</sup> 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.<sup>4</sup>

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.<sup>5</sup> 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.<sup>6</sup> 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.<sup>7</sup>

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.<sup>8</sup>

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.<sup>9</sup>

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.<sup>10</sup> The Winton Shire Council stated that their real concern about the National Bank closure was a matter of ‘when’ not ‘if’.<sup>11</sup>

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.<sup>12</sup>**

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

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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'.<sup>13</sup> 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.<sup>14</sup>

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**

<i>Hawker recommendation no 20</i>	<i>Government response</i>	<i>Branch closure protocol</i>
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.	

<b><i>Hawker recommendation no 20</i></b>	<b><i>Government response</i></b>	<b><i>Branch closure protocol</i></b>
	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.<sup>15</sup>

4.18 The Protocol adopted the Hawker recommendation on this matter with the added proviso that the notice be in writing.<sup>16</sup>

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.<sup>17</sup> 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/AdminViewArticle.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.<sup>18</sup> The Holroyd City Council and the Rosalie Shire Council likewise suggested that at least six months' notice should be given before any bank closure.<sup>19</sup>

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'.<sup>20</sup> 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.<sup>21</sup>

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

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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.<sup>22</sup>

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.<sup>23</sup>

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.<sup>24</sup>

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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’.<sup>25</sup> 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.<sup>26</sup>

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.<sup>27</sup>

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.<sup>28</sup>

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.<sup>29</sup>

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.

...

We are certainly happy to commit to consultation.<sup>30</sup>

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.<sup>31</sup>

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.<sup>32</sup> 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.<sup>33</sup>

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.<sup>34</sup>

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

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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).<sup>35</sup> 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.<sup>36</sup>

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’.<sup>37</sup> 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.<sup>38</sup>

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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/AdminViewArticle.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.<sup>39</sup>

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 it 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

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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'.<sup>40</sup>

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.<sup>41</sup> 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.<sup>42</sup>

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.<sup>43</sup> 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.<sup>44</sup>

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.<sup>45</sup>

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.<sup>46</sup>

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.<sup>47</sup>

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.<sup>48</sup> 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.<sup>49</sup> 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.<sup>50</sup>

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.<sup>51</sup> 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'.<sup>52</sup> 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.<sup>53</sup>

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.<sup>54</sup> Mr Ian MacDonald, National Australia Bank, suggested that it is a matter for governments rather than banks.<sup>55</sup>

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’.<sup>56</sup>

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’.<sup>57</sup>

4.68 A number of witnesses cited instances where they believe the banks frustrate the transfer of business to another service provider.<sup>58</sup> 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.<sup>59</sup> 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.<sup>60</sup>

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.<sup>61</sup>

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.<sup>62</sup>

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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.<sup>63</sup>

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.<sup>64</sup> 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.<sup>65</sup> The Finance Sector Union of Australia also believed that a community impact statement should be part of this protocol.<sup>66</sup>

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.<sup>67</sup> 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.<sup>68</sup>

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.<sup>69</sup>

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.

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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.





## CHAPTER 5

# COMPETITION IN THE BANKING INDUSTRY— WINNERS AND LOSERS

### Competition and contestability in the banking industry

5.1 The Wallis report argued that ‘free and competitive markets can produce an efficient allocation of resources and provide a strong foundation for economic growth and development’.<sup>1</sup> Indeed, the language of recent reforms paints an encouraging picture of increased efficiency and better performances by business. The effects of deregulation and the influences of globalisation, however, are mixed—there can be both winners and losers.

5.2 The banking and financial services sector in country Australia has been no exception in that some sectors of the community have benefited from competition while others have not. This chapter discusses broadly the effects of competition on the provision of banking and financial services in regional, rural and remote Australia.

5.3 According to Mr Stan Wallis, his Committee placed a high priority on improving contestability in the system when formulating recommendations to ensure an efficient, responsive, competitive and flexible financial system. By ‘contestability’, he meant ‘the opportunity for newcomers to challenge the established firms and compete with them wherever they see opportunities to do so’.<sup>2</sup> The Wallis Report observed, however, that:

Competition and technology have facilitated the emergence of specialist providers who target products and customers where margins are highest. New entrants (and indeed other exiting competitors) are able to ‘cherry pick’ the attractive products and customers without having to provide complementary services at a loss.<sup>3</sup>

5.4 This tendency to ‘cherry pick’ in the banking industry has meant that while the reforms that have taken place over the last two decades have improved business competitiveness, the effects have not been uniform.<sup>4</sup> Indeed, evidence suggests that

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1 Commonwealth of Australia, *Financial System Inquiry Final Report*, March 1997, p. 177 (The Wallis Report).

2 Stan Wallis, ‘The Future of the Australian Financial System’, *The Sydney Papers*, Autumn, 1997, p. 113 and ‘Modernising our Markets; the Financial System Inquiry’, *CEDA Bulletin*, 1 July 1997.

3 Commonwealth of Australia, *Financial System Inquiry Final Report*, March 1997, p. 142.

4 Graeme Samuel, President, National Competition Council, conceded clearly that ‘while promoting competition will generally improve economic efficiency and community welfare, this may not be the case in specific instances where the benefits of reform would be outweighed

the benefits of competition in the banking industry have been lopsided—that they fall unevenly on sectors of the population with some, notably small rural towns, experiencing a disproportionately negative impact. In other words, there have been sectors of the economy in regional, rural and remote Australia that have prospered under competition while others have struggled.

5.5 The following section considers two sectors in rural Australia where the experiences of competition in the banking industry are very different—agribusiness, where competition is strong and retail banking in small rural towns where competition is weak.

## Agribusiness

5.6 Agribusiness provides an example of a sector in rural Australia where competition in the financial services industry is generating improved services for country people. The KPMG research report, *Small Business Banking in Australia*, found that over recent times, the agribusiness sector in Australia has emerged as one ‘of strong importance to the Australian economy’. According to the report, agribusiness has seen some significant developments in the provision of banking and associated services.<sup>5</sup>

5.7 The involvement of the major banks in this area demonstrates the growing importance of the agricultural sector to them. The National’s Agribusiness Financial Services is a specialist division and is committed to the long-term viability of agribusiness in rural Australia. It informed the Committee that the division consists of over 200 Agribusiness Managers, supported by Agribusiness Analysts located in over 100 regional centres throughout Australia.<sup>6</sup>

5.8 The National explained that agribusiness managers and analysts are specialists with their focus on agriculture and related businesses. They live in the local community and contribute to local community activities and events. Many of the managers are from rural backgrounds and can relate directly to the events that affect agricultural communities.<sup>7</sup> By locating agribusiness in the regional centres, they have direct contact with customers in the region which allows customers one on one access

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by associated costs, or where market failure might warrant regulation.’ Graeme Samuel, President, National Competition Council, ‘A Changing Australia: The Business and Social Imperatives’, presentation to the Institute of Chartered Accountants in Australia, Business Forum 2001, Melbourne, 21 May 2001.

5 KPMG Consulting, *Small Business Banking in Australia*, A Research Report, February 2002, p. 49. In its assessment of the Colonial Ltd and Commonwealth Bank of Australia merger, the ACCC reported in May 2000 that agricultural lending requires a physical presence of some sort. In keeping with this observation, banks and other financial institutions generally have teams of specialist lenders travelling the countryside assessing and managing loan accounts. See *Submission* 105, p. 14.

6 *Submission* 118, p. 8.

7 *Submission* 118, p. 8.

to an agricultural finance specialist. They also understand the time constraints of their customers and regularly travel to their premises (that is, rural properties to conduct interviews).<sup>8</sup>

5.9 The National's Agribusiness Financial Services have grown over the last decade from 20 per cent to just under 30 per cent. This increase is a direct result of the specialisation of the segment and the increasing understanding of agriculture demonstrated by specialised products tailored to meet the needs of agribusiness customers. The bank focuses on recruiting people with farming backgrounds and agricultural training, predominantly from rural Australia.<sup>9</sup>

5.10 As with the other major banks, the Commonwealth Bank outlined the service it offers to the agricultural sector of Australia. It noted that its AGRIOPTIONS package is a complete product, combining lending, investment, risk management, business and personal financial services, designed to provide maximum flexibility and certainty in managing agricultural businesses.<sup>10</sup> Agribusiness also forms an important component of Westpac's Country Business Direct service which has been established in three major regional locations.<sup>11</sup>

5.11 Mr Carroll, ABA, supported the banks in their evidence that agribusiness is an area where banks have targeted their resources. He stated:

Those services have been developed over probably a decade now. Most of the banks servicing that market are employing agriculture graduates and typically they look for agriculture graduates who have a background in family farming so that there is some empathy there. They are delivering the services to the farm—visiting the farm to talk business—rather than the customers having to travel. In that sense, the issue of distance is being addressed. Also they are obviously available to deal with any problems that customers might be having with their banking services. They are generally supported by specialised marketing units.<sup>12</sup>

5.12 Mr Burke, NFF, confirmed the view that the agribusiness had certainly captured the banks' attention. From information obtained from members, Mr Potter, also from the NFF, told the Committee:

...there has been a great improvement in the quality and quantity of agriculture-specific products. More people have been employed. There are

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8 *Submission* 118, p. 9.

9 *Submission* 118, p. 1.

10 *Submission* 124, p. 10.

11 *Submission* 110, p. 4.

12 *Committee Hansard*, 14 November 2002, p. 75.

new agribusiness centres and all that sort of stuff. My impression is that there is some good work being done out there, for farmers specifically.<sup>13</sup>

5.13 He noted further that agribusiness banks are applying themselves to providing mobile banking service. ‘They go out and do trips to catch up with a couple of their clients in a day and that sort of thing. In light of the current banking atmosphere, it is probably on the increase rather than on the decrease’.<sup>14</sup>

5.14 In summary, the NFF noted that agribusiness is seen as ‘a bit of a premium product.’

It is not provided to everybody, and we accept that it will not be able to be provided to everybody. It is still for the select few at the moment.<sup>15</sup>

5.15 Without doubt, agribusiness is a sector where competition in the banking industry has generated improved services. Mr Anthony Harman, Department of Agriculture, Fisheries and Forestry, observed ‘with a lot of farmers, because they have such big debts and outstanding loans, there is fairly strong incentive for the banks to service them to the level of their satisfaction’.<sup>16</sup>

5.16 It should be noted, however, that even within this sector, there are groups more valued than others. One industry commentator observed:

It is not surprising given the polarisation in the financial performance of the farm sector that lenders have analysed in detail the revenues generated from clients and aligned both their product mix and level of servicing accordingly. At the ‘bottom end’ of the farm sector, where the finance needs are both simple and low volume, servicing via generic lending products and centralised telephone service centres is the only way in which lenders can deliver services profitably. At the other end, the product mix options provided are more sophisticated and are supported by personalised account management.<sup>17</sup>

## **Retail banking transactions in country Australia**

5.17 Although there is robust competition within certain sectors of the financial service sector in rural and regional Australia, there are areas of service provision that are not driven by competition—where the market is sluggish in responding to consumer needs. Basic retail banking transactions is one such area.

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

14 *Committee Hansard*, 14 November 2002, pp. 56–7.

15 *Committee Hansard*, 14 November 2002, p. 57.

16 *Committee Hansard*, 12 November 2002, p. 4.

17 Bruce Brown, ‘Future rural finance trends’, paper included in vol. 2 of the proceedings of the National Outlook Conference, *Outlook 2001: capturing growth opportunities*, Canberra, 27 February–1 March 2001. See also Evan Jones, ‘Rural Finance in Australia: a Troubled History’, *Rural Society*, vol. 12, no. 2, p. 171.

5.18 In looking specifically at the banking industry, a study by the Productivity Commission in 1999 found that there were pockets of the Australian community that had not gained from competition in the banking sector:

Bank branch closures have been part of the decline of some small country towns. The spread of newer bank technologies and the deregulation of the financial system have reduced the demand for and supply of traditional banking services and seen the emergence of new financial services and new ways of providing traditional services. While benefiting many, it has disadvantaged some, particularly people reliant on traditional banking services in those small rural communities where all branches have been closed and only of limited range replacement services have emerged.<sup>18</sup>

5.19 Conclusions reached by the ACCC in 1998 and 2000 support the contention that banking deposits and retail transaction accounts may be one such area where deregulation has not produced sturdy competition. In considering the merger proposal of Westpac and the Bank of Melbourne and the proposed merger of the Commonwealth and the Colonial, the ACCC was concerned about competition for transaction accounts, deposit products and small and medium-enterprise banking.<sup>19</sup>

5.20 It found in the case of the Commonwealth/Colonial merger that the Commonwealth acquisition of Colonial would likely cause a substantial lessening of competition in five markets—transactions accounts, deposit products and small business banking in Tasmania and transaction accounts and small business banking in regional New South Wales.<sup>20</sup>

5.21 In further support of these findings and consistent with the evidence presented in chapter 3, Mr Chris Connolly and Mr Khaldoun Hajaj found that:

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18 Productivity Commission, *Impact of Competition Policy Reforms on Rural and Regional Australia*, Inquiry Report, no. 8, 8 September 1999, p. xxxvii.

19 The ACCC found in the case of the Commonwealth/Colonial merger that there was little evidence that suppliers of transactions accounts who had minimal branch, agency or ATM network infrastructure could provide a competitive constraint. Pure on-line banking had tended to target technologically sophisticated consumers but for most consumers, on-line banking offered few substitution possibilities.

In the deposits market, the Commission took the view that ‘the apparent lack of demand side substitutability between at call transactions accounts and longer term savings type products led to the conclusion that there was a separate market for deposits’. In the Commission’s view, ‘barriers to entry in this market were substantial. New entrants would need to develop a branch network and establish a trusted and identifiable brand name. Independent reports indicated that Internet-only banks had made little headway and that access to “bricks” rather than just “clicks” was important’. Ross Jones, Commissioner, Australian Competition and Consumer Commission, ‘The Dollars and Sense of Bank Consolidation, Bank Mergers and the Trade Practices Act ...’, Melbourne Business School Current Issues Conference, Melbourne, Friday, 12 April 2002, p. 12.

20 *ibid.* See also *Forum*, ACCC Journal No. 40. pp. 19, 20. and Tom Valentine and Guy Ford, ‘Bank Mergers in the Australian Financial System: Should the Pillars be Pulled Down?’, *Economic Papers*, 1 December 2001, vol. 20, no. 4, pp. 45–6.

Australia has one of the most concentrated banking markets in the world...despite the level of concentration, there are some areas of reasonable competition, such as the home lending market. However, everyone from the Australian Competition and Consumer Commission (ACCC) to the Prime Minister agrees that the areas of weakness in bank competition are retail transaction accounts and small business banking.<sup>21</sup>

5.22 Mrs Zerbst, Secretary, Nanango Progressive Community Ltd, encapsulated the views of many community leaders trying to improve banking services to their areas, 'it is quite common knowledge that the large banks like the National Bank here really do not care if their customers leave, as long as their business customers do not leave'.<sup>22</sup>

5.23 Thus, while a retail network in the banking industry may be important to customers for the delivery of transaction and term deposits, the relatively high operating costs associated with traditional bank branch services renders this approach to retail banking unattractive for both incumbents and potential new entrants.<sup>23</sup> In many instances, the small country town is a low value market that banks have chosen to jettison.

5.24 Put succinctly by the Hindmarsh Shire Council:

Sometimes it seems that the major banks are in a race, to avoid being the last branch in town.<sup>24</sup>

5.25 Professor Ian Harper took a pragmatic approach to the future of banking worldwide and in Australia. He stated bluntly that banks do not need rural branches, they are 'too expensive'.<sup>25</sup> He told the Committee:

I would be less saying to the people who are departing: 'Stop! Stop! Come back here. Get back to your posts.' That is Canute-like. It is not because the banks, in my opinion, are seeking to be antisocial. They are responding to forces which are very strong and my concern is that they be allowed to respond to these forces, because the consequences of not doing so are severe. Instead I suggest asking, 'Right. What fills this space when the banks have departed, and can we as representatives of the public do

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21 Chris Connolly and Khaldoun Hajaj, *Small Business Banking: Issues Paper*, Financial Services Consumer Policy, University of New South Wales, April 2002, p. 7.

22 *Committee Hansard*, 22 May 2003, p. 485.

23 Garry Goddard and Greg Walker, *Bank Mergers in Australia: Competition Assessment of the Commonwealth Bank of Australia's Acquisition of Colonial Limited*, Working Paper no. 2/01, April 2001, p. 26.

24 *Submission 87*, p. 1.

25 *Committee Hansard*, 26 February 2003, p. 237.

something, if necessary, through the public mechanisms to assist to catalyse the development of what comes afterwards?’<sup>26</sup>

He warned that there were difficult times ahead for the banking industry and adjustments would not be smooth—that the market was not going to be flawless in this transition.

## **Conclusion**

5.26 Most witnesses accept that banking, like the rest of society, has changed and cannot go back to old ways. Nonetheless, it is a matter of concern to the Committee that there are pockets in the Australian community where competition in the retail banking industry is not strong and where the withdrawal of bank branches has created a void in the provision of banking and financial services. Evidence presented in chapter 3 suggests that the market has been slow to respond to the withdrawal of traditional bank services and is causing problems for some groups in country Australia.

5.27 The Committee is very interested in the question posed by Professor Harper—‘What fills this space when the banks have departed?’ The following chapter looks at the way in which service providers have moved into the vacuum left by the closure of bank branches in regional, rural and remote Australia and overall how they are meeting the challenge of delivering banking and financial services to country people.

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26 *Committee Hansard*, 26 February 2003, p. 239.





# CHAPTER 6

## ACCESS TO BANKING SERVICES IN AUSTRALIA

### Anticipated branch closures

6.1 The cutback in bank branches was foreseen. The Wallis report anticipated that the banks would rationalise their branch network. In 1997, it concluded:

The Inquiry recognises that there will be a need to replace any rural bank branches which are closed with alternative delivery channels. If this occurs, the importance of a branch presence is likely to become less relevant to individual consumers, if not to the community. As well as ATMs, EFTPOS, telephone and computer banking, new delivery mechanisms which may be of assistance in rural areas include mobile rural industry specialists and agency arrangements with non-financial services providers such as Australia Post. Rural and remote communities and institutions should work together to explore alternative delivery options which meet the needs of all concerned.<sup>1</sup>

6.2 Clearly, the Wallis report presumed that while competition would result in branch closures a range of services would spring up to replace them. As expected there has been a decline in traditional bank branches accompanied by a corresponding growth in alternative forms of banking. Taking a broad approach, this chapter presents an overview of the range and type of banking and financial services that are now available to people in regional, rural and remote Australia.

### Current access to a banking service—overview

6.3 In essence, the banks readily acknowledge that there has been a reduction across the board of bank branches in Australia. Nonetheless, according to the ABA, the introduction of different forms of banking, in most cases, has compensated for the loss. It asserted that the major banks maintain extensive face-to-face and electronic self-service banking networks throughout rural and regional Australia.<sup>2</sup> The ABA submitted that in 2001:

- banks maintained 4,712 branches and around 5,043 agencies;
- Australia Post had 2,821 giroPost outlets (which commenced in 1995); and

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1 Commonwealth of Australia, *Financial System Inquiry Final Report*, March 1997, pp. 468–9. (The Wallis Report)

2 *Submission 117*, p. 1.

- taken together (branches, agencies, and giroPost), the current level of over-the-counter services available in Australia today is only 14 per cent less than the number of over-the-counter facilities provided in 1990.<sup>3</sup>

6.4 Mr Bell, ABA, explained further that there are 400,000 EFTPOS outlets in Australia and 12,000 or 14,000 ATMs together with telephone banking.<sup>4</sup> There is also the ability for customers in rural and remote areas to deal with mobile bankers or with regional banking centres on particular agribusiness matters.<sup>5</sup> The figures seem impressive and are supported by current data.

6.5 Indeed, the ABA relies on a recent study to demonstrate that the great majority of Australians have access to a banking service. It maintained that this latest research shows that there is good representation of financial services in regional and rural Australia, compared with other commercial and government services.<sup>6</sup> The study found that there are a total of 3,380 points of presence for Australian banking and financial services.<sup>7</sup> Any Australian non-metropolitan town or metropolitan suburb that contained at least one banking service (Bank and Credit Union branches, ATMs, giroPost outlets and Australia Post Office Manual Bank Agency Locations) was considered as one point of presence for this analysis.<sup>8</sup>

6.6 Before looking at the findings of this survey, the report discusses the APRA database on access to banking services in Australia on which this survey was based.

### **Statistics on access to banking services**

6.7 In 1999, the Hawker Report concluded that ‘the statistical information that is readily and officially available is of limited use in compiling a picture of the delivery of financial services through branches and agencies.’ It recommended that the Minister for Regional Services, Territories and Local Government and the Minister for Financial Services and Regulation, in consultation with State colleagues, undertake a collection of comprehensive data on the access communities have to financial services.<sup>9</sup>

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3 *Submission 117*, p. 6. See also *Committee Hansard*, 14 November 2002, p. 61.

4 The numbers of EFTPOS outlets and ATMs in Australia have increased since Mr Bell gave evidence. See Table 11.1 (p. 171) which records 433,640 EFTPOS terminals and 21,603 ATMs as at June 2003.

5 *Committee Hansard*, 14 November 2002, p. 75.

6 *Submission 117*, p. 3.

7 *Submission 117*, Background Paper, p. 5.

8 *Submission 117*, Background Paper, pp. 3 and 5. The list on p. 3 of the paper did not include Australia Post Office Manual Bank Agency Locations.

9 Report from the House of Representatives Standing Committee on Economics, Finance and Public Administration, *Regional Banking Services, Money too far away*, March 1999, pp. 15-16.

6.8 In its response to the recommendation, the Government agreed with the finding that the lack of comprehensive data on the availability of services to different regions made it difficult to draw conclusions about access to services in regional and remote areas of Australia and whether they had improved. It explained that the Australian Prudential Regulation Authority (APRA) with the Australian Bureau of Statistics (ABS) and the Reserve Bank of Australia (RBA) had embarked on a major exercise to review and harmonise its data collection and analysis processes.<sup>10</sup> It recommended that:

APRA take into account the recommendations of, and the issues raised by, the Hawker Committee in its review of data collection and that it works closely with representatives of the financial sector in determining the most appropriate data to be collected. The Government also recommends that APRA consider publishing information that easily and accurately represents the level of access Australians have to basic financial transaction services both face-to-face and electronic, and that this data distinguishes between the access people have in urban and rural communities. The relevant financial institutions are understood to regard APRA as the most appropriate agency to handle the collection of such data.<sup>11</sup>

The Commonwealth considers it appropriate to await the outcome of APRA's review before it undertakes any separate collection of data on the access communities have to financial services. If such a collection of data is to be undertaken by the Commonwealth, then it will be done in consultation with the relevant State authorities.<sup>12</sup>

6.9 Although APRA did not see the collection and analysis of data on the availability of banking services as part of its prudential functions, it has now assumed responsibility for gathering such information. APRA explained that rather than focus on branches and agencies as was the case previously it had developed a survey that captures all service channels available to customers.<sup>13</sup>

### **APRA's 'Points of Presence' database**

6.10 In June 2001, APRA announced the release of the Points of Presence data which was to be the first of an annual series that would over time show the changing patterns of financial services available to the community. The information contained in the survey reaches down to the level of individual service channels within separate localities, towns and suburbs.<sup>14</sup> The survey recognises that banking services are now

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10 Commonwealth Government Response to the Recommendations of the House of Representatives Standing Committee on Economics, Finance and Public Administration Inquiry into Regional Banking Services, p. 6.

11 *ibid.*, p. 7.

12 *ibid.*

13 Dr Darryl Roberts and Earl Burgess, APRA, *Committee Hansard*, 25 February 2003, pp. 183–185.

14 APRA, *Points of Presence, Summary of branches*, 30 June 2001.

delivered through a wide range of ‘service channels’ and not just by traditional bank branches.

6.11 In its spreadsheet entitled *Points of Presence 2001*, APRA divides the various channels of banking service into those that qualify as ‘branches’ and those that do not. To qualify as a ‘branch’, a service channel must meet the following criteria:

- accepts cash and other deposits (including business deposits) and provides change;
- facilitates the keeping of accounts for customer access, including the provision of account balances;
- opens and closes accounts;
- can facilitate or arrange the assessment of the credit risk of existing and potential customers; and
- offers additional services in the one establishment such as financial services, business banking and specialist lending.

### ***Problems with definitions—branch and agency***

6.12 Although the definition of a branch is now used consistently in the database, institutions have the latitude to name and define their other service channels as they choose. According to APRA, this approach makes comparing similar service channels across institutions difficult. Indeed, APRA’s figures provide almost 120 different types of ‘points of presence’ (see appendix 4). The sheer number of terms employed under the category ‘non branch’ is confusing especially where a number of institutions retain the term ‘branch’ in titles even though the facilities are not branches under the definition. These include terms such as Branch–Kiosk; Branch–Non Cash, Interstate Branches and Mini Branch. While the description accompanying each point of access conveys some understanding of the level of service provided, the range is still very great and the information is buried in the raw data. For instance the term ‘agency’ is used in both branch and non branch categories—for example, Commonwealth manual agencies and agencies with Electronic Funds Transfer at Point-of-Bank (EFTPOB) are not regarded as a branch while the National’s agencies are deemed to be branches.

6.13 Thus, the definitions present a very difficult challenge for statistical analysis. How does one compare a Westpac In-Store bank with an Elders Rural Bank agency? An Agribusiness Banking Centre with a MAXI Multimedia kiosk? Measuring banking services according to the number and location of ‘points of presence’ without further considering the services those points of presence actually deliver is fraught with difficulty. Terms such as ‘agency’ are too broad to have any value as a statistical tool to help in understanding the level of service provided.

6.14 Other information about the quality of service is also missing. For example, the Committee visited the small Queensland town of Blackbutt which has an RTC. The statistics may well show that this town has a banking facility but it does not show

that the Nanango Shire Council subsidises this facility to the amount of between \$8,000 and \$10,000 a year.<sup>15</sup> Goombungee may well have an ATM but according to a council representative it spends 90 per cent of its time with ‘an out of order’ sign on it.<sup>16</sup>

6.15 More importantly, while the data shows the services available it provides no indication of areas without banking facilities. This deficiency in the data base was evident to the Committee when it sought information on the availability of banking services to remote communities in the Northern Territory. The only information available was a very basic survey undertaken by field officers (see appendix 5). The Committee believes that any data collected on the availability of banking services in Australia should also document communities where there is no point of banking presence.

### ***Other difficulties in analysing the data***

6.16 APRA also drew attention to another aspect of the data that makes analysis difficult. It warned that service channels other than those meeting the definition of a branch, can not be aggregated to achieve the total. The same points of presence may be simultaneously reported by separate institutions, for example giroPost.

6.17 Furthermore, APRA told the Committee that it did not believe that the 2002 comparison figures for 2001 are worth anything mainly because the institutions provided numbers but ‘did not know where to classify them’.<sup>17</sup> The Committee hopes that these teething problems are soon resolved.

6.18 Without doubt the Points of Presence database is comprehensive—it lists all facilities providing a banking service. The Committee accepts that the quality of the statistics now being collected has improved, particularly in having the one standard definition of a bank branch. Even though the statistics in defining a branch offer a better understanding of the services provided by such a facility, the almost 100 remaining types of facilities that are grouped together under the classification of non branch pose a problem for analysts.

### ***Lack of analysis***

6.19 Of greater concern, however, is the lack of analysis of this material. The Department of Family and Community Services noted that evaluation of the data is left to individual users. It suggested that there may be some benefit in APRA or another agency developing ‘a more coordinated approach to analysis’ that could be

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15 Richard Brittain, *Committee Hansard*, 22 May 2003, p. 477.

16 Clinton Weber, CEO, Rosalie Shire Council, *Committee Hansard*, 22 May 2003, p. 465.

17 *Committee Hansard*, 25 February 2003, p. 185.

used by governments, banking and other financial institutions.<sup>18</sup> APRA, however, told the Committee:

...we do not attempt to analyse or interpret this information, nor do we have any particular insight into the accessibility of banking services across regional and rural Australia.<sup>19</sup>

Further that:

...we do not actually want to put the effort into analysing that return because it is not germane to our mandate which is set out in the APRA Act.<sup>20</sup>

6.20 The Committee accepts that APRA's core responsibility is to ensure the prudential soundness of ADIs. Nonetheless, the Committee believes that the data collected by APRA is a rich source of information for the banking industry and for governments and should be presented in such a way that it provides some insight into the accessibility and level of banking and financial services in country areas. It definitely should identify areas that have limited access to bank services particularly those without a bank branch that are dependent on self-service banking channels.

6.21 The Committee believes that further work is required to refine the definitions used in this database so they can be used to convey a more accurate understanding of the level of banking and financial services available across Australia. The Committee also believes that the body of raw data collected by APRA should be analysed and presented so that it 'easily and accurately represents the level of access Australians have to basic financial transaction services' in metropolitan and in country areas. The Government recommended as much in its response to the Hawker Report.

#### **Recommendation 4**

**The Committee recommends that the Department of the Treasury and the Department of Transport and Regional Services review the 'points of presence' database to determine whether the current system of gathering statistics on access to banking services is producing a full and accurate representation of the delivery of such services to rural, regional and remote Australia. Further, acknowledging that APRA does not attempt to analyse or interpret the information it gathers for the points of presence database, the Committee recommends that the Australian Government nominate another agency better suited to carry out such analysis.**

6.22 The following section looks at a recent study that draws on APRA's database to reach conclusions on the access to banking and financial services in regional Australia.

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18 *Submission 101*, p. 8.

19 Brandon Khoo, *Committee Hansard*, 25 February 2003, p. 181.

20 Dr Darryl Roberts, APRA, *Committee Hansard*, 25 February 2003, p. 183.

## **A map of the distribution of banking and financial services in Australia**

6.23 On behalf of the ABA, the National Centre for Social Applications of GIS, the University of Adelaide, conducted preliminary analysis to map the nation's access to banking services using the data collected by APRA in its 2001 survey on the various points of presence. It explained its findings as follows:

For this analysis 20 km was identified as a maximum reasonable distance to travel to access a banking service. Few localities with a population greater than 200 persons are further than 20 km from a banking service. Within the whole of Australia these localities number 32. Within Remote and Very Remote Australia there are 28 localities that are further than 20 km from a banking service, the majority of these are concentrated within the Northern Territory and Western Australia, where population densities are low and distances between populated localities are high...Euclidean analysis of the distances between those 28 localities and their nearest banking service shows that 6 are within 50 km, 4 are within 100 km, and 18 are greater than 100 km from any banking service.

The 28 Remote and Very Remote localities isolated from banking services tend to be remote communities, whose populations fall between 200 and 950 persons.<sup>21</sup>

6.24 The study also suggested that throughout Australia there are less than five localities with greater than 200 and less than 700 persons whose only access to a banking service within 20 km was an ATM.<sup>22</sup> It concluded that 'Australians have extensive access to banking services through a variety of distribution channels—including over the counter, in a supermarket, newsagent, post office or an ATM'.<sup>23</sup>

6.25 The map below shows the locations of communities in Australia with more than 200 people that do not have an over-the-counter banking service within 20 kilometres.

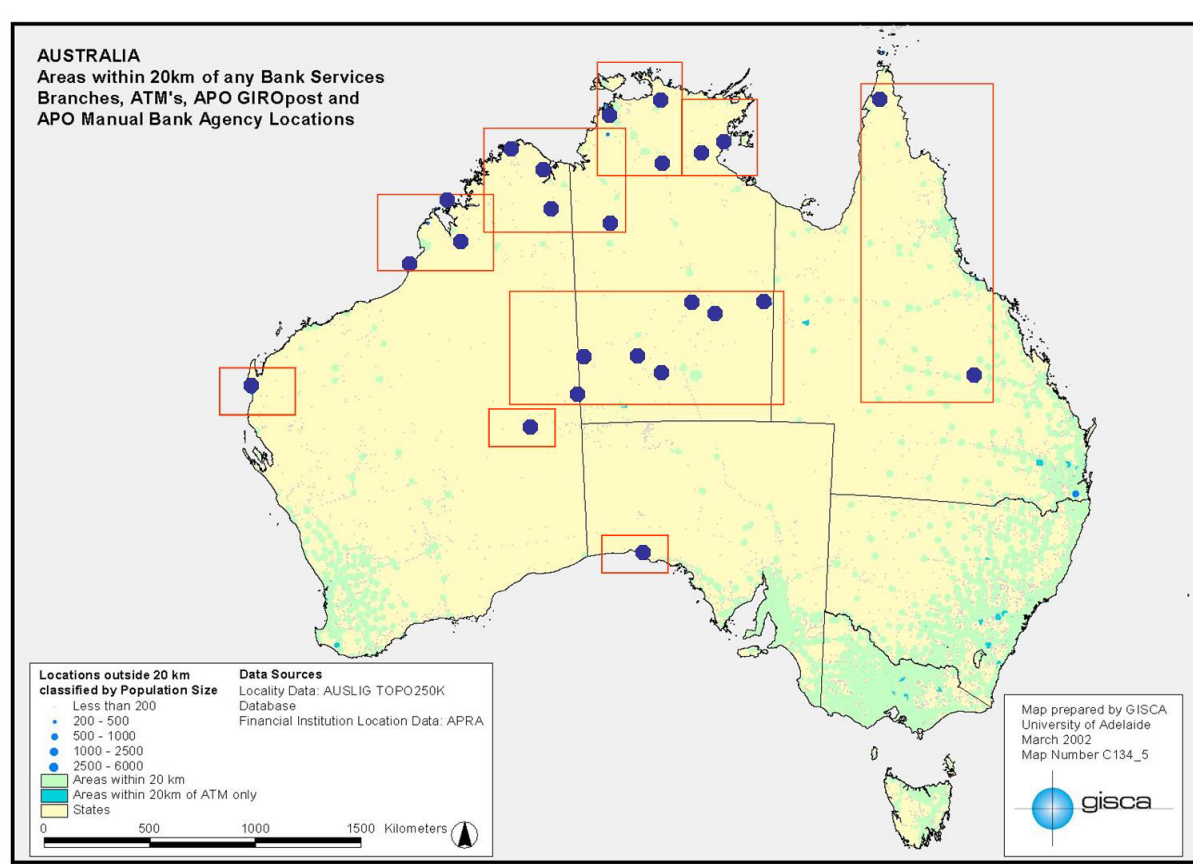
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21 Attachment to *Submission 117*, p. 6.

22 Appendix B to *Submission 117*, p. 7.

23 ABA, Media Release, 'ABA Maps Community's Extensive Access to Financial Services', Sydney, 27 March 2000, <http://www.bankers.asn.au/ABA/adminpages/Admin/New.AnArticle.asp?ArticleID=331> (19 July 2002).

**Table 6.1—Map showing the areas within 20 km of any Bank Services Branches**



6.26 These statistics appear quite promising for the case that access to banking services in rural and regional Australia are adequate. For example the Commonwealth Bank cited APRA's latest points of presence data to confirm that it is increasing its services to regional, rural and remote communities through a variety of distribution points such as ATMs, EFTPOS machines, Woolworths Ezy Banking and giroPost.<sup>24</sup>

6.27 Unfortunately, definitional problems cloud the issue. As noted earlier in this chapter, the ABA includes Australia Post Manual Banking Agency locations and giroPost outlets as banking 'points of presence'. There are 805 of these agencies and more than 14,000 giroPost outlets throughout Australia, many in rural and regional Australia. These outlets do not meet APRA's minimum criteria for a branch and the level of banking service offered by the manual banking agency is very limited.<sup>25</sup>

24 *Committee Hansard*, 25 February 2003, pp. 123–4.

25 ATMs similarly fail to meet the 'branch' criteria, but the ABA report acknowledges that they are less acceptable points of presence, and excludes them from some of its analysis. The ABA suggests that the presence or absence of ATMs in the analysis has a negligible effect, presumably because there are few locations where there are ATMs, but no other points of presence.



Further still, including an ATM as a banking point of presence means that the understanding of a banking service is reduced to its most rudimentary level.

6.28 So, while the ABA's statistics indicate that very few Australians are more than 20 km from some form of banking service, it is impossible from their research to determine how many Australians have access to adequate services.

6.29 Thus, although the statistics may seem impressive in showing that there are only 32 localities in Australia with populations over 200 that do not have a banking service within 20 kms they give no indication of the level of service provided to those communities. It should also be noted that the survey did not include communities with less than 200 residents. There are over 1,000 discrete Indigenous communities alone with populations under 200. Chapter 15 provides more information on these communities.

## **Conclusion**

6.30 Clearly, the banks are placing a heavy reliance on non-traditional forms of banking services to convey a positive message that they are indeed catering to the needs of those in regional Australia. Evidence to this Committee, however, highlights community dissatisfaction with the level of service they provide. Chapter 3 quite clearly identified the problems caused by branch closures or the withdrawal of banking services from country areas. Chapter 5 found that because of the lack of competition in some areas of regional, rural and remote Australia the market was tardy in responding to consumer demands. Against this backdrop of branch closures and weak competition, the following chapters look more closely at the range of banking services provided to people in regional, rural and remote Australia and consider the adequacies of such services.



# 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.<sup>1</sup> 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.<sup>2</sup> 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.<sup>3</sup> 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.<sup>4</sup>

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.<sup>5</sup> 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.<sup>6</sup>

## 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.<sup>7</sup> 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.<sup>8</sup> 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.<sup>9</sup>

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

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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.<sup>10</sup>

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’.<sup>11</sup>

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.<sup>12</sup> 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’.<sup>13</sup>

7.11 The ABA referred to the potential for consumer poaching as a commercial impediment to shared banking arrangements.<sup>14</sup> 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.<sup>15</sup>

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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'.<sup>16</sup> 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.<sup>17</sup>

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.<sup>18</sup>

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.<sup>19</sup>

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.<sup>20</sup>

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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’.<sup>21</sup>

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.<sup>22</sup>

The advice explained further:

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

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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.<sup>23</sup>

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.<sup>24</sup>

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.<sup>25</sup>

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.<sup>26</sup>

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

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23 *ibid.*

24 *ibid.*

25 *ibid.*

26 *ibid.*



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

...

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.<sup>27</sup>

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.<sup>28</sup> 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.<sup>29</sup>

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

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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.<sup>30</sup>

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.<sup>31</sup>

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.<sup>32</sup> 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.<sup>33</sup>

7.31 She made the point:

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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.<sup>34</sup>

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.<sup>35</sup>

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.<sup>36</sup>

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.<sup>37</sup> The Shire of Wiluna also supported the introduction of circuit mobile services to remote areas on a regular basis.<sup>38</sup>

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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.<sup>39</sup>

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.<sup>40</sup>

### ***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.<sup>41</sup> 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.<sup>42</sup> 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.<sup>43</sup>

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

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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.<sup>44</sup>

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.<sup>45</sup>

7.42 Mr Jennings, Westpac, expressed concern about matters surrounding security.<sup>46</sup>

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.

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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.



# CHAPTER 8

## CREDIT UNIONS, BUILDING SOCIETIES AND COMMUNITY BANKS

8.1 In withdrawing from some country towns or downgrading their level or quality of service, the major banks have opened up the opportunity for other financial service providers to fill a void. Credit unions, building societies, and community banks are increasingly presented with the chance to provide banking services where banks have departed from a locality or where such services did not previously exist. This chapter looks at the potential for these various institutions to step forward and take the place of the major banks in offering over-the-counter banking services in country Australia. It considers:

- the new regulatory regime incorporating credit unions and building societies under the one framework for ADIs;
- credit unions—their tradition, membership, range of services and the barriers they experience in entering new markets;
- building societies—their history, membership and the constraints they have in endeavouring to expand their services into country Australia;
- community banks—their potential to fill the vacuum left by the major banks, the contribution they are currently making to regional banking, and the problems they experience in establishing a presence.

### **A new regulatory regime for ADIs**

8.2 On 1 July 1999, regulatory responsibility for credit unions and building societies was transferred from the states and territories to the Commonwealth. This move brought the regulation of credit unions and building societies as non-bank authorised deposit-taking institutions into line with the banks. It was envisaged that this new regime would be less cumbersome and would enable the non-bank deposit-taking sector to provide a more effective source of competition for the banks in the retail market. Now, under Commonwealth jurisdiction, credit unions and building societies are ADIs licensed by the Australian Prudential Regulation Authority (APRA) under the *Banking Act 1959*. They operate under the same rules as banks and are prudentially regulated by APRA and regulated as companies by the Australian Securities and Investments Commission (ASIC).<sup>1</sup>

8.3 A major step toward the implementation of a uniform regime for ADIs took place on 20 September 2000 when APRA issued a set of harmonised prudential

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1 Mr Joe Hockey, Minister for Financial Services and Regulations, *House Hansard*, 29 March 1999, p. 4623.

standards for authorised deposit-taking institutions. According to Mr Jeffrey Carmichael, APRA, these standards brought the regulatory framework for banks, building societies and credit unions ‘into full alignment for the first time’. He concluded:

In a sense it marked the coming of age of the smaller institutions, from a fragmented and inadequate regulatory system in the 1980s, through the harmonised state-based FI scheme in the 1990s, to full regulatory parity with banks in 2000.<sup>2</sup>

8.4 Although credit unions and building societies are presented with the opportunity to move into areas abandoned by the banks, they face the same competitive forces that influenced the banks’ decision to withdraw their over-the-counter services in regional Australia.

8.5 As with banks, these institutions must balance the commercial interests of their shareholders, the demands of their customers and the needs of the community. Although credit unions, building societies and community banks are involved in the community, and have a closer relationship with their shareholders, in the cases of credit unions and building societies they are also the members, their success depends ultimately on their economic viability.

8.6 In 2001, APRA noted that over the previous five or so years, credit unions and building societies had faced mounting pressure to expand their operations so as to achieve economies of scale and to compete in an increasingly technology-driven market. According to APRA, this situation resulted in a steady process of consolidation, industry exit, and in the case of building societies, some conversion to bank status. By 2001, the number of credit unions had declined by 28 per cent since June 1995 (from 291 to 209), and the number of building societies had declined by 36 per cent over the same period (from 28 to 18).<sup>3</sup> The number of credit unions stood at 196 as at June 2001 while building societies stood at 16.

8.7 APRA explained, however, that despite the decline in the number of institutions, both the credit union and the building society sectors continued to show asset growth which, it asserted, ‘reflects the fact that most of the decline in the number of institutions has been due to consolidation (eg mergers) rather than pure exits from the industry’.<sup>4</sup>

8.8 Of interest to the Committee is the number of branches operated by these institutions. In June 2001, Credit Union branches stood at 1028 but had dropped to 939 by June 2003. Over the same period branches belonging to building societies had fallen from 328 to 308.<sup>5</sup> The following table shows the distribution of credit unions

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2 Jeffrey Carmichael, ‘APRA—the Way Forward’, speech, 22 November 2002.

3 APRA *Insight*, 3<sup>rd</sup> Quarter 2001, p. 16.

4 APRA *Insight*, 3<sup>rd</sup> Quarter 2001, p. 16.

5 APRA, *Points of Presence, Summary of Branches*, 30 June 2001 and 30 June 2002.



and building society branches and other face-to-face service channels in 2001, 2002 and 2003.

**Table 8.1—Credit Unions and Building Societies—Level of Service, 2001, 2002 and 2003<sup>6</sup>**

Points of Presence Category Comparing 2001 and 2002							
Industry	ARIA Category	Branch level of service			Other face-to-face		
		2001	2002	2003	2001	2002	2003
<b>Building Societies</b>	<i>Highly Accessible</i>	228	205	197	86	110	127
	<i>Accessible</i>	55	58	59	46	54	61
	<i>Moderately Accessible</i>	33	35	37	58	60	70
	<i>Remote</i>	6	8	9	13	12	13
	<i>Very Remote</i>	5	7	6	3	1	3
	<i>(blank)</i>	1			5	1	
	<b>Total</b>		<b>328</b>	<b>313</b>	<b>308</b>	<b>211</b>	<b>238</b>
<b>Credit Unions</b>	<i>Highly Accessible</i>	743	687	670	161	167	171
	<i>Accessible</i>	184	177	173	54	59	57
	<i>Moderately Accessible</i>	58	53	57	42	39	37
	<i>Remote</i>	16	15	15	15	16	15
	<i>Very Remote</i>	21	24	24	20	21	18
	<i>(blank)</i>	6	1		3		286
	<b>Total</b>		<b>1028</b>	<b>957</b>	<b>939</b>	<b>295</b>	<b>302</b>

6 APRA, *Points of Presence*, Summary of changes from 2001 to 2002, ARIA Breakdowns and Movements, 2001, 2002 and 2003 <http://www.apra.gov.au/statistics/pop/ARIABreakdownsandMovements.xls>, 2003. APRA in its Explanatory Notes states that 'some postcodes do not have ARIA indexes, and for these the ARIA category is shown as a blank. This applies to postcodes for islands (other than Tasmania). Nonetheless, the number of Credit Union outlets offering other face-to-face services is given as 286 which appears extremely high for the category 'blank'. APRA informed the Committee that of these 286 new channels, 177 belong to the TAB Credit Union. It should be noted that CUSCAL disputes APRA's statistics. It informed the Committee the level of 'branch level service' outlets, according to APRA's definition, is more accurately reported as 1,008. CUSCAL's data shows that there has not been any significant variance in branch level services offered by credit unions in any particular area. Louise Petschler, CUSCAL, correspondence to the Committee, 22 December 2003.

## Credit Unions

8.9 Credit unions are mutual organisations and as such hold the interests of their members paramount. They are not-for-profit, democratic, member-owned financial institutions whose services are directed to improve the economic and social well-being of all their members who are also their customers.<sup>7</sup> On joining a credit union, a member pays a nominal amount which entitles him or her to an equal say in the running of the organisation. Credit unions focus on delivering benefits to members who share a common set of values and ethics which governs the organisation's operation.<sup>8</sup>

8.10 Although small compared to the traditional banking sector, the credit union sector is characterised by 'diversity, with large credit unions operating on a national scale and smaller locally-based ones serving targeted communities'.<sup>9</sup> CUSCAL informed the Committee that credit unions offer an extensive range of banking and financial services to members, including face-to-face services, internet and telephone banking, ATM and EFTPOS access, investment and savings accounts, personal and home loans, credit and debit cards.<sup>10</sup> Many credit unions also offer investment advice, financial planning services, managed funds and insurance products.

8.11 According to CUSCAL, Credit unions have a strong tradition of delivering services to country Australia. Their membership now extends to all but six postcodes in Australia, and is not restricted by geography, community or affluence.<sup>11</sup> CUSCAL explained that:

Credit unions are particularly well represented in country Australia, with a high market penetration. Over 70 credit unions base their activities in primarily non-metropolitan areas, with industrially bonded credit unions also serving members outside city areas...

In towns such as Narromine, Broken Hill, Georgetown, Naracoorte, Moe, Morwell, Armidale, Narrabri, Tamworth, Yarrawonga, Wauchope, Orange, Mount Gambier and Lithgow, more than 40% of the local community are members of a credit union.

In smaller communities such as Trangie, Woodburn, Evans Head, Werris Creek and Mungindi over 75% of the local population are credit union members.<sup>12</sup>

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7 International Credit Union Operating Principles, Appendix A, *Submission 109*.

8 *Submission 109*, pp. 4–5.

9 *Submission 109*, pp. 4–5.

10 *Submission 109*, p. 4.

11 *Submission 109*, p. 8.

12 *Submission 109*, p. 8.

8.12 CUSCAL further noted that in the first six months of 2002, credit union branches had opened in many locations where the major banks had withdrawn their branches including Golden Grove, Joondalup, Sunbury, Violet Town, Ganmain, Coolaman, Murrurundi, Coonamble, Walgett and Brewarrina.<sup>13</sup>

8.13 According to the Wagga Mutual Credit Union, it has been at the vanguard of development in returning financial services to country towns abandoned by the banks. It went on to state that ‘Credit Unions per se, have been instrumental in providing banking services to country towns since starting-up in Australia after the Second World War’.<sup>14</sup>

8.14 Credit unions also embrace new technology to provide services to their customers. CUSCAL informed the Committee that due to a smaller branch network than the major banks:

Credit unions...have utilised innovative service delivery channels throughout their operation. The credit union industry has been at the leading edge of innovative developments in technology—Australia’s first ATM was installed by a Queensland credit union in 1977, the first pilot EFTPOS facility in Australia was conducted by a credit union in 1981, and credit unions were early pioneers of telephone and other remote access banking.<sup>15</sup>

8.15 They also have mobile service centres operating across communities and workplaces, volunteer representatives working through communities and workplaces and information kiosks and service options through workplaces/community centres.<sup>16</sup> The reach of credit unions into country Australia was facilitated under the former CreditCare program (see chapter 10 for details on this program).

## **Building societies**

8.16 Building societies have existed in Australia since 1850. On 1 July 1999, after being under state legislation for 140 years, building societies became authorised deposit-taking institutions.<sup>17</sup> As noted earlier, they are now licensed under the *Banking Act* to undertake the business of banking.

8.17 The modern building society is a community-based institution that provides banking and financial services, with special skills in housing finance, to many Australians.<sup>18</sup> With only 16 institutions, building societies hold a small share of the retail banking market. Nonetheless, according to the Australian Association of

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13 *Submission* 109, p. 9.

14 *Submission* 39, p. 1.

15 *Submission* 109, p. 4.

16 *Submission* 109, p. 13.

17 <http://www.aapbs.com.au/about.htm> (8 January 2003).

18 <http://www.aapbs.com.au/about.htm> (8 January 2003).

Permanent Building Societies (AAPBS), its members are located in key regional cities in Australia.

8.18 As a financial co-operative they engage in financial deposit taking and lending to members. The majority of building societies are mutuals and while profitability is important to them they are ‘not readily comparable with the major banks whose first objective is profit maximization’. Mr Jim Larkey, Executive Officer, AAPBS, explained that ‘mutual building societies do not pay dividends but ‘pass back benefits in either or both lower mortgage rates and higher deposit rates’.<sup>19</sup>

### **Barriers to entry**

8.19 As noted earlier, the decision to provide banking and financial services to a rural or regional community is ultimately a commercial one for financial institutions. They weigh up the costs of providing the service against the expected returns. Although credit unions and building societies are member-owned and not necessarily driven primarily by the need to make high profits, they are a business and if not commercially viable will fail.

8.20 Small ADIs face a number of issues in operating their businesses in rural and regional Australia. The following section examines some of the obstacles faced by credit unions and building societies in establishing themselves in country Australia which include:

- high start-up costs;
- portability and banking practices;
- prudential regulations;
- requirements under the Financial Services Reform Act;
- their status as non-bank ADIs; and
- experience in servicing the needs of country Australians.

### ***Start-up costs***

8.21 Start-up costs are a significant barrier to credit unions and building societies seeking to enter new areas in regional Australia. The CreditCare experience clearly showed the costs involved in moving to areas seen as ‘non-commercial’ by other providers as a major stumbling block (see chapter 10, paragraphs 10.3–10.8).<sup>20</sup> The new entrant is expected to provide face-to-face services that are expensive to deliver. The main costs associated with establishing a facility involve the initial feasibility

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19 Press Release, ‘Industry Criticism of KMPG “2001”: Financial Institutions Performance Survey’, 29 June 2001, <http://www.aapbs.com.au/Press%20Release%20-%20KPMG%20Survey%2029%20Ju...> (8 January 2003).

20 Dr Gary Lewis, ‘Laughing All the Way to the Credit Union’: The CreditCare Experience in ‘No Bank’ Towns 1995–2000, ACCORD, University of Technology, Sydney, November 2001, pp. 34, 76.

studies and planning, the hiring and training of teller staff, renting premises in a convenient locality, IT connection, fitting out the premises and providing security.<sup>21</sup>

8.22 Credit unions are particularly constrained by their limited opportunities to raise capital. Mr Lovney, CUSCAL, explained:

By definition, credit unions cannot raise capital from the marketplace, so a new institution has to have an amount of capital sufficient to meet its regulatory requirements and sustain its operations until it can start to support itself. There are not very many small institutions or groups of people with the wherewithal to do that. More commonly, large credit unions or credit unions that are relatively well capitalised will make a decision to open a new branch and employ some of that capital. It is notoriously difficult to start a new credit union. For just that reason, we have seen very few places—a handful of them—in the last decade or so where new credit unions have opened.<sup>22</sup>

Credit unions have made known to the Committee that they would welcome a review of support options for providers moving into no-bank towns.<sup>23</sup>

### ***Portability and banking practices***

8.23 The process of establishing an over-the-counter banking facility may be further frustrated in towns where a major bank has closed its doors but still seeks to retain its valued customers.

8.24 According to CUSCAL, credit unions have experienced the ‘sharp end’ of banking practices where they have opened services in areas where banks have left town. It drew attention to some bank practices that create difficulties for a new entrant in establishing its customer base. In brief, CUSCAL maintained that when withdrawing services, ‘the banks have taken steps to keep more lucrative customers through bundling of services, fixed term loans, and maintaining remote ‘personal bankers’.<sup>24</sup> Dr Gary Lewis described this practice as banks ‘creaming off’ profitable activities which leaves credit unions with expensive transaction business.<sup>25</sup> He wrote:

Banks sought particularly to ‘lock borrowers in’ by offering attractive rates on loans. Business owners, in particular, were used to being wooed by the banks and often expected a credit union to be more competitively aggressive

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21 See for example, Timothy White, CPS Credit Union (South Australia) Ltd, *Committee Hansard*, 12 March 2003, p. 375.

22 *Committee Hansard*, 25 February 2003, p. 173.

23 *Submission* 109, p. 15. See also Timothy White, CPS Credit Union (South Australia) Ltd, *Committee Hansard*, 12 March 2003, p. 377.

24 *Submission* 109, p. 16.

25 Dr Gary Lewis, ‘Laughing All the Way to the Credit Union’: The CreditCare Experience in ‘No Bank’ Towns 1995–2000, ACCORD, University of Technology, Sydney, November 2001, p. 35.

to attract their business. Many elderly people, who had banked with a particular institution all their lives, ‘remained loyal’ to that bank for major banking purposes and used a credit union only for simple transactions.<sup>26</sup>

8.25 This practice of ‘creaming off’ or ‘cherry picking’ the products or customers where the margins are highest was also referred to in chapter 5.<sup>27</sup> In CUSCAL’s view such practices affect the viability of the alternative provider.<sup>28</sup> It explained:

In some areas new institutions have been left with transaction based (and less profitable) business—effectively subsidising new services from members in other communities. As mutuals and not-for-profit institutions, a credit union’s capacity to extend this support is limited.<sup>29</sup>

8.26 The Electricity Credit Union of Queensland provided a practical example of how a bank withdrawing its branch from a locality can thwart the endeavours of a new entrant to attract patronage particularly highly valued customers. The credit union was proposing to establish a facility in the small town of Blackbutt where the National had closed its branch. Mr Geoffrey Maudsley, Chairman, Electricity Credit Union, informed the Committee that the National approached local businesses and offered a better deal than the credit union such as EFTPOS machines at reduced rates. He explained:

They knew that the credit union was trying to get EFTPOS facilities. It was no secret that they were refusing to sign interchange agreements and trying to squeeze the credit unions out of that situation. That is why the businesses have not come on board.<sup>30</sup>

8.27 Consequently, all the credit union is dealing with is ‘the mums and dads and the pensioners’. Mr Brittain told the Committee that the local council subsidises the service to keep it going.<sup>31</sup> The Traditional Credit Union in the Northern Territory experiences the same problem only in its case, the major banks ‘openly encourage’ their less valued and more costly Indigenous customers to switch to the Credit Union.<sup>32</sup>

8.28 The Committee appreciates the problems faced by smaller ADIs attempting to enter the market where the major banks are courting the more profitable customers. As long as the market practices of the banks, however, are fair and proper the Committee

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26 Dr Gary Lewis, ‘Laughing All the Way to the Credit Union’: The CreditCare Experience in ‘No Bank’ Towns 1995–2000, ACCORD, University of Technology, Sydney, November 2001, p. 39.

27 See Chapter 5, paragraphs, 5.3–5.

28 *Submission* 109, p. 16.

29 *Submission* 109, p. 16.

30 *Committee Hansard*, 22 May 2003, p. 482.

31 *Committee Hansard*, 22 May 2003, p. 480.

32 See Chapter 16, paragraphs 16.32–16.33.

accepts that the difficulties created for the smaller ADIs stem from competition in the market place. Nonetheless, it is another matter should such practices be anti-competitive. Chapter 4 dealt at length with the difficulties experienced by customers in switching accounts—costs involved in closing and transferring loans and ‘the rigmarole the bank makes them go through in changing accounts’.<sup>33</sup> At that stage in the report, the Committee was looking at branch closures and the problems encountered by customers in transferring accounts to a new service provider. In summary, it found that customers were unwilling to switch accounts because of:

- loyalty to and familiarity with their bank;
- difficulties in transferring details of accounts from one institution to another;
- difficulties and penalties associated with unbundling their package of accounts; and
- costs related to closing and opening various accounts especially mortgage arrangements which appear to be the main impediment to changing service providers.<sup>34</sup>

8.29 The Committee now turns to look at the problems of portability from the view of the service providers. According to CUSCAL, the obstacles which consumers face in transferring funds between financial institutions stifles competition and inhibits the capacity for non-bank ADIs to move into new markets. It is referring to structural impediments to the transfer of accounts concerned with direct debits through to periodic payments of other types, payroll issues and the transfer of information from one institution to another. CUSCAL noted:

When we look at the banking sector in the UK, we see that the major banks there have taken initiatives that are about assisting consumers to move between institutions much more easily. They have introduced customer mandates that enable information to be transferred between financial providers, and they also guarantee to meet certain time frames in ensuring, for example, that direct debits are wound up quickly and transferred to an institution.<sup>35</sup>

8.30 CUSCAL wondered whether competition could be improved by putting in place mechanisms to make it easier for customers to shift from one banking institution

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33 Chapter 4, paragraphs 4.66–4.71.

34 See Chapter 4, paragraphs 4.52–4.71.

35 *Committee Hansard*, 25 February 2003, p. 166. Mr Lovney told the Committee ‘customers do need to do a fresh 100-point check every time they move institutions. They need to change their payroll arrangements. If they have direct debits for their invoices and bills, they need to move those as well. They also have to take into consideration credit cards and stamp duty.’ See p. 170.

to another.<sup>36</sup> It recommended that ASIC convene an industry working group to review banking practices in this area of portability of accounts.<sup>37</sup>

8.31 Indeed, the United Kingdom Competition Commission recently produced a comprehensive report on the supply of banking services to SMEs which found a reluctance on the part of SMEs to switch banks because of perceived complexity of transferring for little financial benefit, the perceived significance of maintaining relationships with a particular bank and ‘the ability of the existing bank to negotiate lower charges or otherwise respond if there is a threat of switching’.<sup>38</sup> It referred to the ‘nightmare’ of switching and the ‘hassle factor’ of transferring business from one bank to another.<sup>39</sup> It made a number of recommendations to remove barriers to entry including, *inter alia*, requiring banks:

- to complete a substantial percentage of all account switching within five working days where no borrowing is involved and in all but the most exceptional cases ten working days if borrowing is involved (in the absence of security), with compensation if those timescales are not met;
- (as part of the previous point), to publish their performance objectives and their efficiency in achieving them;
- to examine ways to allow more rapid transfer of security and publish a report on this within nine months of publication of this report; and
- to provide a portable credit history on request to a timescale and format to be approved...<sup>40</sup>

8.32 The Committee recommended in chapter 4 that a clause be inserted in the bank branch closure protocol 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 was to include the timely and orderly transfer of information and documentation. Since this recommendation was in the limited context of a branch closure, the Committee makes a further recommendation dealing with the broader problem of impediments to the transfer of accounts. It regards this as a competition issue and believes that the ACCC would be the appropriate regulator to investigate the matter.

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36 *Committee Hansard*, 25 February 2003, p. 170.

37 *Committee Hansard*, 25 February 2003, p. 166.

38 Competition Commission, *The supply of banking services by clearing banks to small and medium-sized enterprises*, A report on the supply of banking services by clearing banks to small and medium-sized enterprises within the UK, presented to Parliament by the Secretary of State for Trade and Industry and the Chancellor of the Exchequer by Command of Her Majesty, March 2002, p. 3.

39 *ibid.*, p. 29.

40 *ibid.*, pp. 145–6. The report made 13 recommendations in all on this matter.



## Recommendation 5

**The Committee recommends that the ACCC convene an industry working group that would include consumer associations to review current practices in the transfer of accounts from one financial institution to another. The group's objective would be to determine whether there are impediments to the switching of accounts and, if so, to formulate best practice guides that could be used as a model to facilitate the transfer of accounts to be incorporated in the Banking Code of Practice.**

This process would:

- provide ADIs with the opportunity to review their policies and practices, especially in light of the findings of the United Kingdom's Competition Commission;
- inform consumers about the costs involved in switching accounts;
- identify any practices that unnecessarily place a cost on consumers and are barriers to new entrants;
- promote a more open and competitive industry; and
- encourage ADIs to adopt current best practice.

8.33 It should be noted that the Banking Code of the British Bankers' Association contains a provision that the bank will co-operate with customers deciding to move their account so that the transfer is made as efficiently as possible.<sup>41</sup>

### *Prudential regulations*

8.34 Credit unions have indicated their desire to expand their services into rural areas but believe that they are constrained by their limited ability to generate a profit margin. As noted earlier they come under the same regulatory umbrella as the major banks and are required to meet the same obligations as their larger competitors. Some smaller ADIs see the prudential regulations as a significant brake on their ability to establish new outlets.<sup>42</sup>

8.35 The Wagga Mutual Credit Union agreed with the view that the credit unions' lack of capital inhibits them from taking up more opportunities to expand services to country towns. It noted that 'regulators require all Approved Deposit taking Institutions to hold a minimum level of capital against risk-weighted assets in their balance sheet'.<sup>43</sup>

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41 British Bankers' Association, *The Banking Code*, January 2001, para 7.2, p. 11.

42 See for example, *Submission 59*, pp. 3–4.

43 *Submission 39*, p. 2.

8.36 The Australian Centre for Co-operative Research and Development (ACCORD), in particular, was concerned that there may be a number of legal and regulatory obstacles to the creation of banking and financial institutions. In its opinion, these impediments are most evident in ‘the near impossibility of forming new locally-based credit unions’ because of the demanding nature of current capital adequacy and prudential requirements imposed on large and small ADIs.<sup>44</sup>

8.37 It recommended that full consideration be given to the extent to which existing financial institutions serve local and regional business needs, with the view to expanding available services for business and community enterprise finance in regional and remote communities.<sup>45</sup> It also called for a thorough investigation into the effect that existing financial and banking regulatory requirements have on the establishment of new financial institutions in meeting the needs of business and community enterprises.<sup>46</sup>

8.38 APRA acknowledged that capital remains one of the challenges for smaller ADIs. It told the Committee:

Unlike non-mutual organisations that can raise external capital—for example, by way of share issue—credit unions are unable to raise share capital on this basis. It is their very mutual structure that creates this problem. The industry has for some time been looking to develop a viable tier one capital instrument that will not trigger demutualisation, but has yet to achieve this. APRA is more than happy to consider industry proposals, but in the interests of depositors these must meet the fundamental criteria for recognition as tier one capital.<sup>47</sup>

8.39 In explaining the capital adequacy requirements for ADIs, APRA told the Committee that the minimum capital ratio is eight per cent which, according to Mr Brandon Khoo from APRA, is ‘sacrosanct’ and cannot be breached.<sup>48</sup> A higher ratio can be determined depending on the risk exposure of the institution. In regard to credit unions, Mr Stephen Glenfield informed the Committee that APRA’s average capital adequacy requirement for credit unions was about 15 per cent with the banks averaging 10 per cent.<sup>49</sup> He stated:

There would be few allowed to operate at that level [the minimum 8 per cent], because of the size of the capital base and the risk of a particular bad loan tipping you under. What we say to them is, ‘The minimum is eight per cent. We would expect the board to set a reasonable prudential buffer over

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44 *Submission 80*, p. 2.

45 *Submission 80*, p. 2.

46 *Submission 80*, p. 2.

47 Brandon Khoo, APRA, *Committee Hansard*, 25 February 2003, pp. 180–1.

48 *Committee Hansard*, 25 February 2003, p. 189.

49 *Committee Hansard*, 25 February 2003, pp. 188–9.

that to allow for the sorts of write-offs that we might not be aware of today.<sup>50</sup>

Dr Roberts added:

Even if the credit union board were incredibly conservative and prudent, it would still be exposed to the range of uncertainty and the vagaries of the economic climate, so some small margin or some margin above eight per cent is, in our view, the absolute rock bottom for even the best-run credit union.<sup>51</sup>

8.40 The Committee understands the difficulties that credit unions have as mutual organisations in raising capital and the limitations that the capital adequacy requirements place on these institutions in expanding their business. Nonetheless, it accepts the importance of having in place sound prudential practices designed to protect the interests of depositors and endorses APRA's approach.

### **Recommendation 6**

**The Committee notes APRA's willingness to examine proposals to 'develop a viable tier one capital instrument that will not trigger demutualisation'. It recommends that APRA in consultation with credit unions and building societies explore this proposal.**

### ***Requirements under the FSRA***

8.41 CUSCAL submitted that the implementation of the *Financial Services Reform Act* (FSRA) was currently causing a major diversion of resources away from credit union member services into regulatory compliance. It argued that in relation to deposits and non-cash payment products, the FSR regime had introduced a significant new compliance burden with little benefit for consumers.<sup>52</sup>

### ***Policy Statement 146***

8.42 The AAPBS reinforced the views of CUSCAL that the FSRA creates difficulties for ADIs in rural and regional Australia and cited in particular the problems in providing basic well-understood banking products. It submitted that the training requirements under ASIC's Policy Statement 146 (PS146) in relation to basic

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50 *Committee Hansard*, 25 February 2003, p. 189.

51 *Committee Hansard*, 25 February 2003, p. 189.

52 *Submission* 109, p. 17. See also *submission* 4 to the Inquiry into Corporations Amendments Regulations 2003, (No. 1), Statutory Rules 2003 No. 31. CUSCAL stated in this submission that 'It is simply a fact that regulatory compliance is a heavier burden for smaller entities because they are less likely than their larger competitors to be able to devote full time resources to the function.'

products and non-cash payments facilities were ‘onerous, overly prescriptive and, in our view, unnecessary’.<sup>53</sup>

8.43 Under the FSRA, all credit unions and building societies require an AFS licence to deal in and advise on deposit and payment products. Before granting a licence, ASIC must be satisfied, among other things, that an applicant will be able to comply with its statutory obligations, including those relating to training and competency. PS146 sets out minimum standards to be met by people who provide financial product advice to retail clients. ASIC has prescribed the lower Tier 2 level of training for basic deposit products, related non-cash payment facilities and most general insurance products.<sup>54</sup>

8.44 The Committee dealt with this matter in its *Report on the Regulations and ASIC Policy Statements Made Under the Financial Services Reform Act 2001* tabled in October 2002.<sup>55</sup>

8.45 On 22 January 2003, ASIC released a number of updates to PS146 which took into account requests from industry for further clarification and the findings of this Committee in its report. They address concerns about costs and unnecessary training. According to ASIC, the revisions provide greater flexibility to licensees in the development and assessment of training courses for basic deposit products (BDP) and

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53 *Submission 2*, p. 1 to the Parliamentary Joint Committee on Corporations and Financial Service’s inquiry into the regulations and policy statements under the Financial Services Reform Act.

54 According to some in the industry, the lower Tier 2 level was an ‘unnecessary and counter productive standard for what are simple, straightforward and capital assured deposit products’. CUSCAL was not alone in arguing that these training requirements placed a significant compliance burden on ADIs. It was critical of PS146 for not being clear and straightforward; for failing to recognise the unique status of ‘basic deposit products’ and related payment products in the Act; and for categorising deposit products that are not basic deposit products in Tier 1 instead of Tier 2. Bendigo Bank Ltd echoed these same sentiments and outlined the adverse effects that PS146 would have on the provision of banking services in regional, rural and remote Australia. Refer to submissions from the Australian Association of Permanent Building Societies, Bendigo Bank Ltd and CUSCAL, nos. 2, 8 and 9 respectively to the Parliamentary Joint Committee on Corporations and Financial Service’s inquiry into the regulations and policy statements under the Financial Services Reform Act.

55 Parliamentary Joint Committee on Corporations and Financial Services, *Report on the Regulations and ASIC Policy Statements Made Under the Financial Services Reform Act 2001*, October 2002, p. 26. It recommended that: ASIC urgently review the training requirements in PS146 so they take into account the special features of basic deposit products and related non-cash payment facilities. Also, that ASIC consider amending PS146, as far as possible—and without compromising consumer protection—to: provide a framework for more cost-effective reviews of ADIs’ current in-house training requirements; to ensure training costs—whether in-house or external—are more proportionate to envisaged consumer protection gains; and to cater for the training challenges presented by agencies and small branches, particularly in regional and remote areas. The Report by the Labour members of the Committee offered some support for the recommendations that ASIC review the training requirements in PS146 and that it consider amending PS146 in the manner recommended in the majority report subject not to compromising consumer protection. p. 82.

related non-cash payment products. It removes the need for BDP training courses to be assessed by an authorised assessor and placed on the ASIC Training Register. ASIC said that this change would relieve licensees of having to arrange a course assessment by a registered training organisation.<sup>56</sup>

8.46 CUSCAL, one of the main critics of PS146, believed that the revised version went some way to addressing the problems that had arisen through the interpretation of PS146. It concluded:

Our principal concern with 146 as it was written was that it enabled training providers to, in effect, have the whip hand themselves, and they were dictating what requirements institutions needed to fulfil. I think the advantage in the new model is that it allows institutions to make some of those training decisions for themselves and to make an assessment of how they want to train their staff.

...Equally, the streamlining provisions that have been proposed offer considerable benefit and flexibility to small institutions but, in effect, do no more than reinforce what was in fact the government's original intention when the bill was passed...<sup>57</sup>

8.47 The Committee acknowledges the work of ASIC in arriving at a satisfactory resolution on this matter of training. While PS146 is concerned with training, other concerns remain about the compliance costs associated with the current regulatory regime.

#### *Disclosure requirements and other compliance issues*

8.48 Although CUSCAL welcomed the recent changes to PS146, Mr Lovney still felt concern over the resources that small institutions were having to expend to comply with new requirements under FSR for products 'which are essentially capital guaranteed'. In summary, he stated:

We think the changes have gone some way toward ameliorating some of those risks but we think the FSR regime is still a significant impost for some institutions which are in effect just deposit and loan providers.<sup>58</sup>

8.49 While CUSCAL supports legislative and non-legislative measures aimed at protecting consumers of banking and financial services products and services, Mr Lovney noted that as an industry the credit unions often find themselves facing complex and overlapping sets of requirements.<sup>59</sup> He cited in particular disclosure

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56 ASIC, Information Release, Wednesday, 22 January 2003. The amendment reads—'Training courses covering advice on basic deposit products and related non-cash payment products (BDPs) are no longer required to be assessed by the licensee as meeting Tier 2 standard'.

57 Adrian Lovney, *Committee Hansard*, 25 February 2003, p. 168.

58 *Committee Hansard*, 25 February 2003, p. 169.

59 These include measures such as the uniform consumer credit code, the FSR in principle, the Centrelink code of practice and the electronic funds transfer code of conduct.

requirements which in his opinion ‘would benefit from a more holistic understanding and appreciation of how they impact, particularly in the case of smaller institutions, where they have a disproportionately large impact on costs and compliance costs’. He explained further:

Disclosure obligations for financial services customers are regulated by the Commonwealth by ASIC, through the EFT code. ASIC also requires that credit unions have a code of practice which regulates disclosure. The Financial Services Reform Act lays on top of that another system of disclosure relating to financial services generally. The uniform consumer credit code sets out disclosure requirements in relation to the provision of consumer credit, and we have just seen amendments to that in some jurisdictions, most notably New South Wales, that overlay further disclosure requirements for the provision of consumer credit under fixed term contracts.<sup>60</sup>

8.50 The AAPBS raised similar concerns. It stated that building societies accept their fair burden of compliance with prescriptive legislation and regulation. It noted, however, that smaller ADIs ‘feel these costs (per customer) more than the majors.’ As a consequence, it concluded:

...the mounting imposition of costs originating from government regulation will necessarily impede the provision of new services and the continuation of existing services which may be marginal for institutions because of the location of those services in regional and rural Australia.<sup>61</sup>

8.51 The Traditional Credit Union (TCU) provides an example of the heavy costs incurred by a small financial institution, especially one working in the more remote areas of Australia, in meeting regulatory requirements. It should be noted that this institution provides services for Indigenous communities where English is not always the first language and where languages differ from community to community. Ms Bev McMillan from the TCU set out in detail some of the costs associated with complying with the regulations:

The Financial Services Reform Act has brought about a lot of changes in our documentation, to start with. Previously, for the sake of our members, we have kept all our product information very basic so that it is easy for them to read and understand, but with these FSRA requirements we have to have a two-page product disclosure statement on every product, we have to have a full product service. In other words, every time we sign on a new member we have to give them an inch thick of paperwork with all the regulatory requirements of using our services and the products, their rights of reply, the Privacy Act, code of conduct, and terms and conditions of use.

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60 *Committee Hansard*, 25 February 2003, p. 165.

61 *Submission 122*, p. 3.

But we are not just talking about basic deposit facilities; we have to take the education of Aboriginal people further so that they know how to use modern products. That alone costs us a lot of money. The legal costs would probably be between \$30,000 and \$60,000 to get the licence through. A requirement of FSR is that we have to have a full network system and that also has to be available in our remote branches. So we have to upgrade our networking system and we have to provide printers into every single branch because when a new member signs up we have to be able to guarantee that we have the latest updated documentation. It has to be live online to print off as required. That is going to cost us in the vicinity of \$40,000.

We have to upgrade the training of our staff, which is the major issue. Before, our staff just had to understand and advise on depositing and withdrawing, but now they have to have a full understanding of all our products and what they do. So we have to upgrade and give them a higher level of achievement in their training. To do that we have to upgrade the training course. We convert all nationally accredited training into a language and a product that is user-friendly for our Aboriginal staff who still have English as their third or, sometimes, fourth language. So that is another cost. We have to employ a new full-time remote training officer to incorporate that additional training. It does not take long to get to \$200,000-plus.<sup>62</sup>

8.52 The Northern Territory Government acknowledged the TCU's argument and commented:

Small credit unions face compliance with the Banking Act, Corporations Act, Consumer Credit Code, Privacy Act, internal and external audit and regular inspection by the Australian Prudential Regulatory Authority. While regulation is essential, existing restrictions on credit unions, the TCU claim, are more appropriate to much larger urban-based organisations.<sup>63</sup>

8.53 Together with the high costs of complying with the requirements of the regulatory regime, the TCU carries the additional costs entailed in providing services to small, dispersed and remote communities. The Traditional Credit Union is discussed in detail in chapter 16.

8.54 Clearly, there is strong evidence that the current regulatory regime places an onerous burden on smaller ADIs in their endeavours to establish a presence in rural and regional Australia and more particularly in remote areas. The Committee fully acknowledges the importance of having a robust regulatory regime that will protect the interests of consumers. It believes, however, that the regime should be flexible enough to facilitate new entrants into a market where there is an obvious need for services.

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62 *Committee Hansard*, 21 July 2003, p. 527.

63 *Submission 128*, p. 7.

## Recommendation 7

**The Committee supports the objectives of the *Financial Services Reform Act 2001* and recommends that the Government monitor its implementation and related regulations.**

**Specifically, the Committee recommends that APRA and ASIC consult with CUSCAL, smaller ADIs and other interested parties about the impact of the regulatory regime on the ability of ADIs to meet the banking and financial services needs of Australians living in rural, regional and remote communities. The Committee further recommends that following the consultation, the two regulators prepare a report for government on the costs of compliance under the current regulatory regime, its effect on competition, and whether and how the costs could be minimised without compromising consumer interests or prudential standards. The report is to be tabled in Parliament.**

**The Committee also recommends that the consultation and report process give particular attention to the delivery of banking and financial services to Indigenous communities in remote Australia.**

### *Status of non-bank ADIs*

8.55 A field worker with the project CreditCare, Mr Tom Watson, observed that one of the most significant hurdles that had frustrated credit unions in competing effectively with banks in the retail banking industry was that:

...by and large, government and semi-government bodies were not permitted to bank with so-called non-banks. One by one, we managed to get that legislation changed in all states.<sup>64</sup>

8.56 The Hawker Report also noted that most states had moved to remove restrictions that prevented government bodies from using credit unions or building societies for some of their business transactions. Residual bias against credit unions, however, seems to have persisted.<sup>65</sup> Indeed, CUSCAL felt strongly that, despite the removal of many statutory barriers which had prevented them from competing with banks, credit unions still suffered from lingering prejudices. It maintained:

Regulated bodies and the wider community need information and education about the 'ADI' concept to promote competition and choice in banking services. We seek the support of legislators and regulators in overcoming entrenched attitudes that discriminate in favour of banks.<sup>66</sup>

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64 Dr Gary Lewis, 'Laughing All the Way to the Credit Union': The CreditCare Experience in 'No Bank' Towns 1995–2000, ACCORD, University of Technology, Sydney, November 2001, p. 95.

65 Report from the House of Representatives Standing Committee on Economics, Finance and Public Administration, *Regional Banking Services: Money too far away*, March 1999, p. 41.

66 *Submission 109*, p. 19.



8.57 CUSCAL cited the example of Victoria's Legal Practice Board which it claimed has refused to approve any credit union to hold solicitors' trust funds since the relevant State legislative barrier was lifted on 1 January 1997. It told the Committee that in the case of the Legal Practice Board:

...we have a number of solicitors in regional and rural areas where there are no banks who want to bank with their local credit unions. But the Legal Practice Board says, 'It doesn't matter what APRA says; it doesn't matter what the government says. We don't think that credit unions are safe, and we require people who hold funds on behalf of legal practitioners to have a Standard and Poor's rating or a Moody's rating of AAA or above.'<sup>67</sup>

8.58 CUSCAL also mentioned the Victorian Health Promotion Foundation which informed CUSCAL that it would only invest with banks and bodies where there was 'full recourse to a bank or government guarantee or indemnity'. CUSCAL had no doubts that credit unions and building societies were being discriminated against and denied opportunities to support local businesses.<sup>68</sup>

8.59 In response to the statements made by CUSCAL, the Legal Practice Board of Victoria advised the Committee that it is required under the Legal Practice Act to 'discriminate' in its approval of institutions associated with receipt of trust account money. It noted that 'as is prudent, from time to time the Board reviews the basis on which it exercises its discretion'. The Board reviewed its policy in late 2002 which now explicitly rules out of consideration for approval, only one category of institution—foreign bank branches. The policy stipulates that an ADI is required to have a minimum long-term rating of A (S&P/Moodys) and a minimum short-term rating of A-1. It states further that 'any ADI with a rating lower than the determined short and long term minima will only be considered where the Board believes that special circumstances apply'. In looking specifically at regional and rural Victoria, the Board told the Committee that it had specifically considered the matter:

Hence its approval of Bendigo Bank and its associated Community Banks for the receipt of Trust Account Monies. This approval is despite Bendigo Bank not meeting the ratings criteria set out in the Board's policy. The Board has taken the view that the exercise of its discretion based on access to service is of relevance.<sup>69</sup>

8.60 The Committee appreciates both CUSCAL's view and that of the Victorian Legal Practice Board. It understands the frustration of the credit unions in not being able to service particular sectors because of perceived risks. It also sees merit in trustees acting with caution in meeting their fiduciary duties. The Committee believes that CUSCAL is right in raising its concerns about discrimination and that the Legal

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67 *Committee Hansard*, 25 February 2003, p. 165.

68 *Committee Hansard*, 25 February 2003, p. 165.

69 Correspondence received as Additional Information, Legal Practice Board to Committee, 16 September 2003.

Practice Board is equally right in reviewing its policies, taking account of its responsibilities and exercising its discretion in determining the institutions it deems appropriate for the receipt of trust account monies. Clearly, under the new regulatory regime credit unions will have the opportunity to build on their reputation and extend their range of transactions.

### ***Lack of experience in servicing the financial needs of farmers***

8.61 A number of financial commentators suggested that credit unions are not equipped to deliver the full range of financial services that banks provide. In particular, they noted that credit unions are not experienced in rural sector farm and business lending.<sup>70</sup>

8.62 Mr Fraser Read-Smith, Chief Executive, Heritage Building Society, explained that the Society had recently entered into the business lending market but not rural lending. He explained:

It is certainly not a lack of demand in an area like this, but it could be lack of experience. This is a very conservative organisation and our board has taken the view that we should stick with our knitting. Going into rural lending would require a different culture and a different type of banking expertise from what we have as an organisation. I would not rule it out as something that we might venture into in the future, but our latest movement in that respect has been into business banking. We have gone from being just a retail banker to now becoming a business banker. That is certainly enough for us to handle in the foreseeable future.<sup>71</sup>

Instead the Heritage has referral arrangements with other organisations for customers who require rural loans.<sup>72</sup>

8.63 The Committee accepts that commercial and rural lending are not the core business of credit unions and building societies and that sensibly they are careful about entering areas of banking where they do not have experience or expertise. The Heritage shows that while they are prepared to expand their areas of activities they are doing so gradually and with caution. In the meantime, they are prepared to work with other organisations to ensure that their customers' needs are met.

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70 Greg Walker, *Finance Industry Restructuring: Implications for Regional Australia*, Paper presented to CAFI Workshop, Brisbane, 12 November 1998, p. 10; Tom Murphy, Director, Western Research Institute Ltd, 'The Rise of Regional Financial Institutions', in conference report and proceedings, 'Efficient Equity and Credit Financing for the Rural Sector', August 2001, p. 59; Siobhan McDonnell and Neil Westbury, *Giving Credit where it's due: The delivery of banking and financial services to Indigenous Australians in rural and remote areas*, Centre for Aboriginal Economic Policy Research, Discussion Paper, No. 218/2001, June 2001, p. 17.

71 *Committee Hansard*, 23 May 2003, p. 499.

72 Fraser Read-Smith, *Committee Hansard*, 23 May 2003, p. 491.

### ***Levy on industry***

8.64 The AAPBS also raised an issue not touched on by the credit unions—the matter of the levy structure which funds APRA. The levies paid by prudentially regulated financial institutions are intended to cover the costs of APRA, the consumer protection functions of ASIC and the ATO.<sup>73</sup> AAPBS told the Committee:

As smaller institutions look at options for perhaps taking up a service, the inequity of the levy imposed by the Treasurer on building societies depositors vis-à-vis those of the major banks, understandably rankles with directors and managers seeking to respond positively in rural Australia.<sup>74</sup>

8.65 In 2000, the chairman of Heritage Building Society stated that the society paid supervisory levies that were 30 times the level of the National Australia Bank and 20 times the ‘other majors’ when expressed as a percentage of total assets.<sup>75</sup>

8.66 Mr Jim Larkey, Executive Officer, AAPBS, after the announcement of the 2000/2001 ADI levies, claimed that they ‘perpetuate the gross unfairness of the funding system on middle sized ADIs’. He maintained that, among other things, the distortions and inequities arising from the levy legislation and the future funding of APRA ‘warrant an urgent change to the currently unfair Australian approach to funding APRA’s supervision of ADIs’.<sup>76</sup>

8.67 APRA believed that the main concern by smaller ADIs was that major banks have a maximum impost which is set at \$1.125 million, which means in effect that on a pro rata basis banks are paying proportionately less. In other words, the smaller ADIs hold the view that they pay too much and the large banks, in particular, pay too little. APRA argued, however, that a very small institution still requires a minimum amount of supervision and a very large institution requires less than \$1.125 million worth of supervision. It believed that the setting of the minimum and maximum

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73 See Garry West, ‘Heritage Building Society hits “inequitable levy system”’, *Australian Financial Review*, 19 October 2000.

74 *Submission 122*, pp. 3–4.

75 See Garry West, ‘Heritage Building Society hits “inequitable levy system”’, *Australian Financial Review*, 19 October 2000.

76 Press Release, 18 July 2001, <http://www.aapbs.com.au/Press%20Release%20-%20Levies%2018%20July%2001.htm> (8 January 2003).

amount is fair to the smaller part of the industry.<sup>77</sup> Mr Khoo noted that the overall levy structure is currently under review by the Government.<sup>78</sup>

### Recommendation 8

**The Committee recommends that the Government in its review of the levy structure give close consideration to the concerns of the smaller ADIs with a view to easing this burden. Further that the matter be included in the concerns to be taken up by APRA and the industry in the review of compliance costs mentioned in recommendation 7.**

### Community Banks

8.68 A number of communities faced with reduced banking services have considered establishing a community bank. This model of banking has gained ground steadily in Australia and earned widespread acceptance.<sup>79</sup>

8.69 Many submissions expressed support for the creation of community banks.<sup>80</sup> They appreciate that a community bank reflects the priorities of members of the local district and brings additional benefits to a community. The Edenhope and District Community Bank Steering Committee saw the establishment of a community bank as the solution to its financial services problem and pointed out that half of the profits of the bank are returned as community dividends.<sup>81</sup> It stated that ‘no wonder community banks are opening up throughout the country at a rapid pace.’<sup>82</sup> Indeed, a key to the success of community banks is their close connection with local residents in that they use local investment to establish market share quickly and create customer loyalty.<sup>83</sup>

8.70 The following section briefly discusses two community bank models—the Bendigo Bank and the Heritage Building Society.

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77 Darryl Roberts, *Committee Hansard*, 25 February 2003, p. 182. Mr Brandon Khoo, APRA, explained the operation of the levy system—‘The legislation provides for levies to be calculated on a set percentage of assets per sector, subject to a dollar minimum and maximum per institution. The rate for credit unions and other ADIs is currently 0.01 per cent, down from 0.013 per cent in 1999–2000, with a minimum of \$500 per institution and a maximum of \$1.125 million, which is up from \$1 million in 1999–2000’. *Committee Hansard*, 25 February 2003, p. 181.

78 *Committee Hansard*, 25 February 2003, p. 181.

79 See for example, the Shire of Kellerberrin which stated that ‘Community banks in Western Australia namely the Bendigo Bank have started to mushroom and those communities are now seeing the immense benefits delivered from a bank located within the community,’ *Submission 52*, p. 1. See also *Submission 100*, p. 2.

80 *Submission 52*, p. 1.

81 *Submission 81*, p. 2.

82 *ibid.*

83 *Submission 107*.

### ***The Bendigo Bank model***

8.71 In June 1998, Bendigo Bank opened the first community bank franchise in Australia at Rupanyup and Minyip, Victoria. This experimental branch provided a model for the successful development of a network of community banks throughout Australia. Community bank branches now operate in 110 communities located as far north as Queensland's Sunshine Coast, south to Geeveston and Dover in Tasmania, the eastern seaboard's East Gosford and Collie in the West.<sup>84</sup> Bendigo Bank reported in September 2003 that it had been a significant year for their community bank enterprise. It noted the following milestones:

- opening of the 100<sup>th</sup> Community Bank® branch in San Remo, Victoria;
- opening of Tasmania's first two Community Bank® branches;
- more than \$1.2 million in Community Bank® profits returned to communities in both dividends to shareholders and community projects;
- National Community Bank® network achieving \$3 billion in banking business; and
- opening of the 250,000<sup>th</sup> Community Bank® account.<sup>85</sup>

8.72 Bendigo Bank's community banking model with its community empowerment and self-help focus has much in common with the philosophy underpinning credit unions. Even so, it has some characteristics that set it apart from the credit union model. The most distinctive features of the community bank under the Bendigo Bank model are:

- It is a franchise of Bendigo Bank—a company is established to raise the capital required for the start up and ongoing maintenance through local investment. Capital required varies but can involve up to \$750,000.
- It involves the local company employing staff and providing infrastructure costs. Bendigo Bank bears credit risk and provides ongoing support for operators, including use of the bank licence and name.
- Not all customers are shareholders, and the drive for return on equity may see costs for some customers increased or service benefits unevenly shared.<sup>86</sup>
- It is not an easy option, and it may be difficult for disadvantaged rural towns to contribute to the start-up costs required.<sup>87</sup>

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84 Bendigo Bank web site, News, September 2003, 'Locals join National Community Bank Conference, [http://www.communitybank.com.au/public/media\\_file/news.htm](http://www.communitybank.com.au/public/media_file/news.htm)

85 Bendigo Bank web site, News, September 2003, 'Locals join National Community Bank Conference, [http://www.communitybank.com.au/public/media\\_file/news.htm](http://www.communitybank.com.au/public/media_file/news.htm)

86 *Submission* 109, p. 14.

87 *Submission* 109, p. 14.

- Respondents are prepared to accept minimal returns (the majority did not expect any return) which could only be explained as a contribution to establish a bank branch.<sup>88</sup>

8.73 The research report by KPMG, *Small Business Banking in Australia*, noted the work being done by the Bendigo community banks which are offering investment products such as the Regional Investment Fund to promote small business growth in the regions.<sup>89</sup>

### ***The Heritage Building Society model***

8.74 The Bendigo community bank concept, although the best known, is not the only model. The Heritage Building Society has developed its own distinct version of a community-based bank that is gradually growing in popularity. The genesis of this model sprang from an active and enthusiastic community group in the small town of Crows Nest north of Toowoomba that was determined to see better banking and financial services in their district. The town has a population of approximately 2,000 with a catchment area taking this figure to 6,000. This group, the Progressive Community Crow's Nest Ltd, (PCCN) explored many options but finally entered a partnership arrangement with Heritage Building Society. Mr Howard Littleton from the PCCN explained:

The Heritage community banking model we settled on made the most sense to our community. It was a great deal less expensive to start, (less than half the cost of the other main community banking model) and, once the doors were open, more money stayed here.<sup>90</sup>

8.75 They needed an initial outlay of \$60,000 but decided to set a goal of raising \$100,000. The group started a company which allowed them to raise the money. Membership was \$10 which entitled a member to contribute to the capital of the company by depositing money with the company of between \$100 and \$5,000. Members were asked to keep the money with the bank for three years but in hardship conditions the money would be returned.

8.76 From the very beginning the company was keen to generate broad community support and placed a limit on the contribution at \$5,000. Pensioners and children are among its members.

8.77 After exploring many options, the company approached the Heritage Building Society with a proposal. They presented the Society with a wish list of requirements they regarded as important such as sensible trading hours. The company also placed a high priority on the employment of a senior manager—someone in the community,

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88 *Submission 107.*

89 KPMG Consulting, *Small Business Banking in Australia*, A Research Report, February 2002, p. 26.

90 Howard Littleton in Heritage Building Society, *Information for Communities Considering Community Banking with Heritage Building Society.*

who understood the full range of people's needs from residential through to commercial and business banking activities and would make himself available to the community.

8.78 Following further negotiation, the company entered a joint venture with the Heritage Building Society. The branch has performed better than anticipated with the \$100,000 outlay recouped and the branch now making profits. The PCCN has announced the first distribution from its share of the community branch profits in the form of community grants totalling \$46,000 to a number of local community projects.<sup>91</sup> The initiators of the scheme cannot understand why more communities have not taken a similar route.

8.79 The Nanango Shire Council adopted the Heritage community bank model and opened its branch in December 2001. Although still in its infancy it is 'very effective and well supported'.<sup>92</sup>

### **The advantages offered by a community bank**

8.80 As established in chapter 3, local residents and businesses value the presence of a bank branch in their town. It means that they are able to conduct their banking in convenient, safe and familiar surroundings and can seek advice from staff with local knowledge. Indeed, the benefits of a community bank extend far beyond simply providing basic bank transactions. The following section looks at some of the broader benefits offered by a community bank.

#### ***Reinvigorate the economic life of a community***

8.81 Mr Gregory Gillett, Bendigo Bank, noted that the development of a community bank creates opportunities to boost economic activity in the community. He stated:

What we like about the community banking side of things, with the 700 directors et cetera, is that it has created a lot of new aspirations in these areas. Many of these people have never been on a board before, so we have an obligation to teach them about the duties of directors and about running companies. In a lot of those locations, it is the first new business that has actually been established in 50 or 100 years...what you invariably get is a rush of enthusiasm, excitement and a bit of aspiration happening, which seems to feed on itself and create renewed confidence and enthusiasm in these areas.<sup>93</sup>

8.82 The Nanango Shire Council provides an example of the process followed and the motivation needed to establish a community-based bank. It informed the Committee that the Westpac and Commonwealth banks closed their branches in

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91 Fraser Read-Smith, *Committee Hansard*, 23 May 2003, p. 490.

92 *Submission* 10, p. 1. See also 'Start your own Bank', *Choice*, June 2002, p. 18.

93 *Committee Hansard*, 27 February 2003, p. 334.

Nanango and left an in-store agency in a pharmacy and access to some services through the Post Office. Through the dedication of a steering committee, a community bank was established with the aid of Heritage Building Society.<sup>94</sup>

8.83 Mrs Wendy Zerbst explained that the main motivation in the community pursuing the community bank model in Nanango was ‘not just having our own financial services but maintaining the levels of service within this town so that it continues to grow rather than decline, because when services are withdrawn people go away’.<sup>95</sup> The desire to keep businesses in the local area was also the motive behind the new Lockhart Community Bank.<sup>96</sup>

8.84 The added advantage in establishing a community bank stems from the involvement of local people and the focus on developing and promoting the commercial life of the district. Mr Gillett told the Committee:

...we want to see our communities regain control of the capital flows within their areas and regain control of the economic destiny of their areas, rather than seeing the capital outflows we see today through superannuation, managed investments and all those sorts of things...whilst there is certainly a cooperative spirit to what we are doing, there is very much a commercial edge to the way it is set up.<sup>97</sup>

8.85 He stated that these centres start as bank branches but then evolve into community enterprises as time goes by. They become the centre for managing all the economic enterprise in that district.<sup>98</sup> The very process requires the community to take the initiative:

They raise anywhere between \$350,000 and \$500,000—usually between \$400,000 and \$500,000—for this particular venture. They have to prove a business case which has sufficient banking volume in it to pay back that sort of capital investment. They then have to marshal, engage and unite all the people in that town to come together as a buying group to make it a successful model.<sup>99</sup>

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94 See comments by Wendy Zerbst, ‘Start your own Bank’, *Choice*, June 2002, p. 18. The community company has 164 members who each pledged between \$200 and \$5,000, making a total of \$160,000. Their stated intention was not to make money but rather to get the service ‘up and running’. The members are not shareholders but members who will receive interest on their money. According to a spokesperson for the Nanango Progressive Society, ‘the rest of the profits will go to a trust fund to be distributed to community projects’.

95 *Committee Hansard*, 22 May 2003, p. 478.

96 *Submission 25*, p. 2.

97 *Committee Hansard*, 27 February 2003, p. 334.

98 *Committee Hansard*, 27 February 2003, p. 335.

99 *Committee Hansard*, 27 February 2003, pp. 339–340.



### ***Dividends for the community***

8.86 Local leaders have high expectations of what a community bank can achieve in their town. Mr Samuel Smith, President, Gladstone Community Development and Tourism Association and Member, Rocky River Community Bank Steering Committee, conveyed his community's hopes in pursuing the establishment of a community bank in their locality. He told the Committee:

We felt there was a real need. We were losing control of what was going on in our country towns, and we felt the community bank concept that Bendigo Bank was offering had so much to offer. We felt we would be empowered communities with some control over our own destiny. Following the opening of the first community bank in Australia at Minyip-Rupanyup in western Victoria there was talk of \$100,000 profit a year, which would go straight back to the community...It was real money; it was better than trading tables, sausage sizzles and things like that. It was money that you could really do things with. The other big thing was, while the banks used to employ school leavers from our high school, that stopped about 10 years ago. So we felt that we could have control over employment also.<sup>100</sup>

8.87 The Director of the Cummins and District Financial Services, Mr Jeffrey Pearson, also suggested that there are 'real rewards for communities that set out on a deliberate course of self-help'.

We are retaining 50% of the profits generated from banking business transacted by members of our community, that will, in the near future, be made available to assist in the multitude of genuine financial demands in a typical rural community.

...

As a direct result of establishing our bank we have two new families living in our district and because they are employees of Cummins and District Financial Services their allegiance is to this area rather than to some remote banking entity.<sup>101</sup>

### **Establishing a community bank**

8.88 Communities endeavouring to form a community bank share many of the difficulties experienced by credit unions seeking to establish a new presence in a country town. They face the problems of galvanising community support for the enterprise, of the high start-up costs involved in conducting feasibility studies, devising a business case, covering costs while building the business, and overcoming embedded attitudes about the soundness of ADIs that are not established banks.<sup>102</sup>

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100 *Committee Hansard*, 13 March 2003, p. 428.

101 *Submission* 132.

102 *Submission* 107.

8.89 In particular, the initial planning period is a crucial and time consuming stage in establishing a community bank. The following sections look in greater depth at the obstacles faced by communities attempting to set up a community bank.

### ***Community support, commitment and determination***

8.90 The message from those who had been successful in establishing their community bank was unambiguous—the venture must be community driven and the undertaking is not easy. Mrs Zerbst echoed the experiences of others involved in establishing a community bank:

...there needs to be a driving force. When it is a community venture and a joint venture, it cannot be driven by the company, it cannot be driven by Heritage, because the success remains in getting the community behind it, and there is difficulty finding people within a small community that have the expertise and the drive to get it done.<sup>103</sup>

8.91 From the banking side of the partnership, the Heritage Society Building endorsed this view. Mr Read-Smith told the Committee:

We are not in the business of selling community branches to communities. Our business is that, if they determine they have a need and they want to work at it, we will assist them in every way we can to bring it about, but we are not about thrusting these things down the throats of communities. Our view is that it is the community that has got to make the running, have the impetus, and then we will work with them and do all we can.<sup>104</sup>

### ***Leadership and business skills***

8.92 Determination alone to see the establishment of a community bank will not bring success; there must be suitably qualified people available to assist and to run the venture. As with most community groups embarking on this venture, the Crows Nest community group relied on community leaders and drew heavily on the generosity, skills and experiences of professional people in their community to launch the project on a shoestring.

### ***Start-up costs***

8.93 Aside from leadership, organisation and commitment, the community needs capital to establish the bank.<sup>105</sup> According to the Managing Director, Bendigo Bank, the path to opening a community bank can ‘be long and arduous’. He explained that in most small country towns, you need 50 to 60 per cent of the population to use the

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103 *Committee Hansard*, 22 May 2003, p. 479.

104 *Committee Hansard*, 23 May 2003, p. 493.

105 Ivor Ries, ‘Small town bank’, *Bulletin with NewsWeek*, vol. 120 (6340), 3 September 2002, pp. 56–7.

facility if it is to work. The branch will need to generate at least \$250,000 a year in profits if it is to remain viable.<sup>106</sup>

8.94 In 1999–2000, the Huon Valley Council began talks with the Bendigo Bank with regard to the community banking model they had developed. At first, it determined the level of support from the community by obtaining pledges. Although it required a minimum of 250 pledges, it received 400 with a monetary value of \$346,000. Even so, the Bendigo Bank advised the Council that this amount was insufficient.

8.95 The Council then conducted a feasibility study for which it received a \$10,000 grant. It employed a consultant to survey the community and to visit the municipality to assess its suitability. Finally, it developed a business plan.

8.96 According to the Local Government Association of Tasmania it has taken two years for the Council to simply determine whether a community bank is a viable option. The capital outlay was in excess of \$25,000 with at least as much again in ‘in kind’ effort. It stated that:

Huon Valley Council has advised that this system has been a long and arduous process and the benefits of the alternative arrangement are yet to be proven. Huon Valley Council has relied heavily on the support from the community and the dedication of its elected members. Without community backing (financial and in kind) and a whole of community approach, such an alternative arrangement for banking services in rural or regional areas of Australia would not be possible.<sup>107</sup>

The efforts of the community were finally rewarded with the opening of the Geeveston and Dover Community Bank, which is a franchised business of Bendigo Bank Ltd, on 8 May 2003.

8.97 The East Gippsland Shire Council acknowledged that community banks are an option for larger towns. It stated that the level of community financial commitment required to set up a ‘bank’ is substantial and in most cases beyond the resources of small rural communities.<sup>108</sup> This was the experience of the Rocky River Community Bank Steering Committee in South Australia, which found that despite community enthusiasm, the proposal to establish a community bank had to be abandoned. Mr Samuel Smith explained to the Committee:

...it was found fairly early in the piece from the discussions with Bendigo Bank that Gladstone on its own was not big enough but, because Wirrabara, Laura and Georgetown did not have any bank branches, it was thought they may be interested...They welcomed it with open arms, and we set up a

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106 Ivor Ries, ‘Small town bank’, *Bulletin with NewsWeek*, vol. 120 (6340), 3 September 2002, pp. 56–7.

107 *Submission* 43, p. [4].

108 *Submission* 75, p. 3.

committee of 23 people, which covered those four communities. We worked very strongly together for the 14 months we were operating. The immediate response from the community was overwhelming, and that response was maintained right through to the extent that, when we actually made the decision not to go ahead, there were a lot of disappointed people and it took a bit to pull the communities back into it.

...When we first looked at it, the level of shareholder capital that Bendigo Bank believed we needed was \$250,000. By the end of 12 months, it was \$450,000. The ball game had changed...To come into our small community of 2,500 people was going to be hard work and involved some risk for them [Bendigo bank]. It could have been a number of years down the track before profits could be made, whereas they already had 144 branches around Australia.<sup>109</sup>

8.98 The Heritage community banking model has attempted to address this problem of high start-up costs. Mrs Zerst found the Bendigo Bank proposal very expensive. In her view, less cost was involved with Heritage and by not imposing a lot of fees such as an annual franchise fee it offered the better option.<sup>110</sup>

8.99 The model clearly sets down the financial responsibilities of each party to the alliance as set out below.

**Table 8.2—The Heritage Building Society Community Banking Model<sup>111</sup>**

<b>Responsibilities of each party</b>	
<b>Community</b>	<b>Heritage</b>
Provides suitable branch premises by way of property ownership or lease.	Is responsible for covering costs to equip the branch office with IT and computer facilities, communication lines and equipment, possibly an ATM, office furniture, marketing material, security facilities and signage, etc.
Covers the cost of fitting out these branch premises to Heritage's agreed standard.	As an Authorised Deposit-taking Institution, provides the authority under the Banking Act for the community branch to operate. Heritage is also responsible for all financial and credit issues.

109 *Committee Hansard*, 13 March 2003, pp. 428–9. Mr Smith explained that the increase from \$250,000 to \$450,000 was to do with the three different outlets and the costs of setting them up—the buildings, signage, carpets etc. *Committee Hansard*, 13 March 2003, pp. 445–6.

110 *Committee Hansard*, 22 May 2003, p. 472.

111 Heritage Building Society, *Information for Communities Considering Community Banking with Heritage Building Society*, p. 8.

Makes a financial commitment to meet its share of any expected operating deficit until profitable operations are achieved.	Is responsible for providing and training appropriate staff, together with all necessary systems and procedures, as well as extensive operational support.
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8.100 Overall, a number of factors combine to create an environment conducive to the establishment of a community bank. Mr Read-Smith observed that there has to be the right community, with the right leadership and level of community support—‘it is a question of finding the right communities that have the critical mass, the leadership and the community impetus to make these ventures work’.<sup>112</sup>

8.101 The Committee accepts that some communities will not be able to garner the support or raise the capital required to establish their own bank. It can see a role for government particularly in assisting communities overcome some of the initial obstacles to establishing a community bank. For example, the Government could take a central role in supporting communities to explore options and to put together a business plan. This matter will be discussed further in the following chapter on the CreditCare and RTC programs.

### ***Failure or take-over***

8.102 At the moment the success of the community bank model is widely acknowledged. Nonetheless, Mr Tim Moore, who has conducted research in the area of community banks, worried about the long term credibility of such institutions. To his mind the fact that not one community bank has closed has the potential to lead to an unrealistic picture of their future. He suggested that for many banks there will come a time when the benefits they provide are outweighed by the costs of keeping them operating. He was concerned that the closure of community bank branches has the potential to have a more detrimental impact than the closure of other bank branches because of residents’ money being tied up in the operation itself. He stressed the importance for communities to consider this possibility in their decision-making.<sup>113</sup>

8.103 Others saw problems arising from their success that could leave community banks vulnerable to takeovers. The Lockhart Shire Council argued that as the community bank model becomes more popular and gains wider acceptance it will begin to eat into the profits of the major banks. It asserted that ‘They must not be allowed to simply buy out the competition and then embark on another round of closures of branch or agency closures’.<sup>114</sup> Likewise, the Narrandera Shire Council was concerned about takeovers and noted that consideration needs to be given to

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112 *Committee Hansard*, 23 May 2003, p. 494.

113 *Submission* 107, p. 5.

114 *Submission* 25, p. 3.

legislative safeguards for community banks to protect the franchise institution from large corporate takeovers.<sup>115</sup>

8.104 A member of the Community bank at Crows Nest accepted that at some stage other models such as the Bendigo Bank one may be susceptible to a takeover from one of the major banks leading to a cycle of downgrading services. It noted that their joint venture model with Heritage, allowed them to seek another partner if Heritage wanted to 'bail out'.<sup>116</sup>

8.105 The Committee accepts that the community bank is a relatively new development and is proving successful. It is also conscious of the concerns about the damage that could be caused to the image of such institutions should one fail or conversely should it be taken over in the case of its success. Such warnings only highlight the importance of local commitment and on-going local involvement with the enterprise to ensure that it remains a genuine community facility.

### **Committee view**

8.106 The Committee acknowledges the work being done by community banks. They not only provide basic banking transactions but answer the growing need for country people to have access to local staff with a strong connection to the district. They provide an attractive option for communities not well served by the traditional banks.

8.107 Their ability to extend their reach into areas in need of banking and financial services, however, is severely curtailed by the limited resources found within many communities. High start-up costs, the importance of community leadership and the need to make the venture a profitable undertaking, means that not all communities have the wherewithal to support such a facility. Evidence has shown that a commitment to and enthusiasm for the establishment of a community banking facility is not enough to make it a viable option. There must be a substantial capital base upon which to build a community bank.

### **Owner-managed branches**

Before leaving this section on community banks, the Committee briefly mentions a model that has a close community focus but where the branch is owned by the manager.

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115 *Submission 36*, p. 2. The Country Women's Association of Western Australia also mentioned the possibility of community banks being 'swallowed up by the more established banks where they demonstrate substantial competition...' *Submission 100*, p. 2.

116 Based on notes taken during Committee's site inspection of the Crows Nest community bank, 22 May 2003.

## **Bank of Queensland**

8.108 The Bank of Queensland operates a number of owner-managed branches where the branches are privately owned. Under this model, the owner-manager, after making an initial outlay to cover upfront costs, enters a profit-sharing arrangement with the Bank of Queensland. The owner-managed branches are located in bank premises and staffed by non-bank employees.<sup>117</sup> They offer a broad range of banking services including cash/cheque deposits and cash withdrawals, lending and the maintenance of accounts to both personal and business customers.

8.109 The focus of the owner-managed model is on community engagement and strengthening the customer-manager relationship. They have flexibility in terms of staffing, opening hours and local marketing. The Bank of Queensland hopes to attract managers with a strong local connection able to relate to the community and its needs. Because the manager owns the branch, there is a strong incentive for him or her to develop close links with customers.<sup>118</sup> At the opening of an owner-managed branch in Murgon, the Bank of Queensland's General Manager Retail, stated that:

These branches are not only allowing us to expand while other banks are reducing their networks, but ensure we are more flexible and responsive to the local community.<sup>119</sup>

8.110 This model presents the same advantages as the community bank in restoring banking services to communities abandoned by the major institutions and in rallying the local economy. The identical problems, however, of start-up costs and building an adequate capital base limit the opportunities for such a model to expand into some areas of rural, regional and remote Australia.

## **Conclusion**

8.111 Unfortunately, some communities, as shown in this chapter, even with determined commitment, cannot generate the level of support or finance needed to establish and sustain a credit union or building society branch or a community bank. In some cases, a town simply cannot support a fully operational facility offering traditional over-the-counter services. This means that communities without access to satisfactory banking and financial services and unable to attract a credit union or establish their own bank, must rely on other means to gain access to such services.

8.112 ADIs, both bank and non-bank, have implemented strategies to help compensate for this lack of banking services. The following section looks at the steps taken by financial institutions to provide an alternative means of delivering banking

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117 APRA, Points of Presence, Raw data, 2002.

118 Paul Syvret, 'At your service', the *Bulletin* with Newsweek, 19 November 2002, vol. 120, no. 6351, pp. 54–5.

119 Bank of Queensland, Media Release, 7 May 2003.

and financial services to areas of regional, rural and remote Australia that cannot support a fully operational branch.



# CHAPTER 9

## AGENCIES AND POST OFFICES

9.1 Banks maintain that they have taken notice of the public outcry over banks abandoning the bush and have taken steps to mitigate the effects of the cut backs. They have introduced a range of banking options offering over-the-counter services intended to compensate in some way for the loss of a full branch service. For example Dr David Morgan told an audience in 2000:

...after hearing the communities' concerns we undertook to keep face-to-face banking in every country town in which we currently operate. It is necessarily a compromise. Local communities were not blind to the fact that Westpac could not sustain services that were incompatible with its overall need for competitiveness and profitability. We managed this by rolling out a commercially viable in-store branch model that met regional needs for a local branch presence.<sup>1</sup>

9.2 This chapter looks at the various forms of co-operation and partnerships that are being forged by service providers to assist in the delivery of banking and financial services to communities in regional Australia. It looks at the role of local councils, financial institutions, other business enterprises and the Commonwealth Government in working together to find solutions to overcome the challenges of delivering adequate financial services to regional, rural and remote areas of Australia. In particular, this chapter looks at the agency model including the use of Australia Post outlets.

### Agencies

9.3 Many ADIs have adopted an 'agency' or 'in-store' model as a means of delivering over-the-counter services but without the need to maintain a fully functioning bank branch.<sup>2</sup> By outsourcing traditional branch activities to a third-party operated facility, they are able to provide services with fewer staff and at lower costs.

9.4 Although banks look to their network of third-party operated agencies to offset the effects of branch closures, this major channel of providing alternative bank services has also shrunk since 1997. It should be noted, however, that this general decline coincides with the introduction in 1995 of another agency type arrangement—giroPost—and its steady increase in numbers since then. GiroPost, which provides an outlet for more than one financial institution, is dealt with as a distinct type of agency model later in this chapter.

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1 Dr David Morgan, CEO, Westpac Banking Corporation, CEDA Address, Sydney 21 August 2000, p. 10.

2 See for example, *Committee Hansard*, 14 November 2002, p. 61.

9.5 The following table provides some indication of the number of agencies delivering bank services in Australia.

**Table 9.1—Agencies and GiroPost outlets, June 1990–June 2002<sup>3</sup>**

<b>C05 POINTS OF ACCESS TO THE AUSTRALIAN PAYMENTS SYSTEM</b>			
<b>Agencies</b>			
	<b>Banks</b>	<b>Non-banks</b>	<b>Giropost</b>
June 1990	7712		
June 1991	7300		
June 1992	6585		
June 1993	6288	2645	
June 1994	5730	2728	
June 1995	5897	2633	
June 1996	6950	2084	2557
June 1997	6992	1760	2627
June 1998	6367	1652	2720
June 1999	6528	1417	2724
June 2000	5043	887	2814
June 2001			2821
June 2002			2962
June 2003			
<i>Source</i>	<a href="#">APRA</a>	<a href="#">APRA</a>	
C.05HIST.XLS	CPAAPSAB	CPAAPSAN	

9.6 The following table records more recent statistics. It, however, is based on the new Points of Presence database and can not be used as an extension of, or build on, the previous table because of differences in classification. Nonetheless, it gives some

3 Reserve Bank of Australia, C05 Points of Access to the Australian Payments System, updated 9 July 2003, [http://www.rba.gov.au/Statistics/Bulletin/index.html#table\\_C](http://www.rba.gov.au/Statistics/Bulletin/index.html#table_C) (11 August 2003).

indication of recent developments in the provision of face-to-face banking services throughout Australia. The statistics do not include giroPost outlets and because of definitional problems cannot be relied on to provide accurate information (see discussion about the Points of Presence database in chapter 6).<sup>4</sup>

**Table 9.2—Outlets providing other face-to-face banking services but excluding those delivering a branch level service and giroPost<sup>5</sup>**

ADIs	ARIA category	2001	2002	2003	Variation 2001– 2003
Banks	<i>Highly Accessible</i>	1588	1622	1597	9
	<i>Accessible</i>	641	652	667	26
	<i>Moderately Accessible</i>	323	358	358	35
	<i>Remote</i>	103	110	109	6
	<i>Very Remote</i>	96	116	108	12
	<i>(blank)</i>	111	50	35	
	<b>total</b>		<b>2862</b>	<b>2908</b>	<b>2874</b>
Building Societies	<i>Highly Accessible</i>	86	110	127	41
	<i>Accessible</i>	46	54	61	15
	<i>Moderately Accessible</i>	58	60	70	12
	<i>Remote</i>	13	12	13	0
	<i>Very Remote</i>	3	1	3	0
	<i>(blank)</i>	5	1		
	<b>total</b>		<b>211</b>	<b>238</b>	<b>274</b>
Credit Unions	<i>Highly Accessible</i>	161	167	171	10
	<i>Accessible</i>	54	59	57	3
	<i>Moderately Accessible</i>	42	39	37	-5
	<i>Remote</i>	15	16	15	0
	<i>Very Remote</i>	20	21	18	-2
	<i>(blank)</i>	3		286	
	<b>total</b>		<b>295</b>	<b>302</b>	<b>584</b>

4 APRA's explanatory notes warn the reader that he or she 'should bear in mind that the detail of movements from 2002 and 2003 may reflect changes in the accuracy of respondents in reporting according to a particular definition. In general, subcategory numbers can be expected to be less robust than category totals, because of the possibility of classification errors'.

5 APRA Points of Presence, Breakdown and Movements, 2001, 2002 and 2003. See also footnote 6, Chapter 8, p. 103.

9.7 The term ‘agency’ is used variously by the different financial institutions to describe the arrangement they have entered into with a third party to provide banking services on their behalf. Although agencies vary in the range of services they offer, they generally accept deposits and provide limited cash withdrawals and account payment facilities.<sup>6</sup>

9.8 Despite the difficulty in identifying the precise level of services delivered by the various service channels termed ‘agencies’, the following section provides a brief description of the variety of facilities that now offer over-the-counter banking services. It outlines the steps that ADIs have taken in regional Australia to provide banking services through a third party operated facility to compensate for the absence of a bank branch. It assesses the extent to which these arrangements can be seen as satisfactory substitutes for services provided by a full scale branch.

### **Westpac**

9.9 Westpac has introduced a community In-store partnership model. It informed the Committee that it is a branch that is owned, operated and staffed by its In-store business partner. There are currently 162 In-store branches around Australia. Generally they are located within a business, such as in a newsagent, chemist or general store. In some cases, the business proprietor has relocated his or her business to the former Westpac branch building.<sup>7</sup>

9.10 They operate during normal business hours, except part-time stores which operate a minimum of 25 hours a week. In-stores offer complete over-the-counter transactions (excluding bank cheques and international services) for all segments. They are supported by mobile specialists in business banking, home finance or financial planning and advice.<sup>8</sup>

9.11 Westpac suggests that the In-store approach works to ensure that face-to-face banking services are maintained with local townships and helps to boost the long-term sustainability of other small business operations in Australia’s rural and regional communities. It informed the Committee that the In-store model has allowed the Bank to open new facilities in a number of locations where it had not had a presence. For example, In-store partnerships have been established in towns such as Jimboomba, Agnes Waters and Boyne Island in Queensland or Kununurra in Western Australia where Westpac had not previously been represented.<sup>9</sup>

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6 See for example, Patricia Howard, ‘Withdrawal Symptoms’, *Australian CPA*, vol. 71, no. 6, July 2001.

7 Westpac, *Submission 110*, p. 7.

8 Description given in APRA, *Points of Presence*, 2001.

9 *Submission 110*, p. 7.

## **ANZ**

9.12 In addition to its network of branches and agencies outside metropolitan areas, the ANZ operates 73 local link agencies which are operated by a third party. They provide a lower cost delivery of basic transaction services using third party premises and labour.<sup>10</sup> Local link agencies offer deposit and cash withdrawal services for personal and small business customers. Access to account keeping facilities and other financial services is provided by a parent ANZ branch. According to the ANZ, local link agencies serve as referral points for new business to the ANZ parent branch which is responsible for following up with the customer.<sup>11</sup>

## **Commonwealth Bank**

9.13 The Commonwealth Bank uses single site operators that are owned and operated by a franchisee. According to the Commonwealth Bank:

Management decisions are made by the franchisee that reports to the Bank's Area Manager. Sites offer sales and service facilities similar to the Bank's branch network. The operating hours are at the discretion of the franchisee. All sites operate with normal branch trading hours, with some sites having extended hours.<sup>12</sup>

9.14 There are both private agencies with electronic processing ability and manual agencies that can process deposit, withdrawal and update transactions (telephonically) on personal passbook accounts for personal customers of the Commonwealth Bank.<sup>13</sup>

## **St George**

9.15 St George has 'Bragencies' which provide customers with services such as deposits and withdrawals transactions for and on behalf of St George customers and the facility to open deposit accounts. They are located in regional townships and situated in local businesses such as chemists and newsagencies.<sup>14</sup>

## **Bendigo Bank**

9.16 The Bendigo Bank and the Elders Rural Services jointly own the Elders Rural Bank. According to the Elders Rural Bank:

The alliance marries Bendigo's banking expertise and rural product range with Elders rural and regional expertise, extensive representation and

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10 *Submission* 121, pp. 3, 5.

11 APRA, Points of Presence, Raw Data.

12 *Submission* 124, p. 7. See also APRA, Points of Presence, Raw Data.

13 *Submission* 124, pp. 8, 9.

14 *Submission* 112, p. 1.

community acceptance. These names are two very powerful brands in all rural and regional areas.<sup>15</sup>

9.17 This arrangement allows the Bendigo Bank to promote and make available its banking and financial products to a broader market throughout Australia. Bendigo Bank explained that in return it promotes Elders products such as Seasonal Finance, Farm Management Deposits and Term Loans to its existing customer base.<sup>16</sup> Elders informed the Committee that they are committed to providing a local branch wherever possible and with the network of Elders and Bendigo Bank (including their Community Bank branches) have expanded considerably their national infrastructure servicing local communities.<sup>17</sup> Elders rural banks are located throughout the country including in some remote and very remote areas such as Alpha, Aramac Ayr, Barcaldine and Quilpie in Queensland and Meekatharra in Western Australia.<sup>18</sup> Under the joint venture there are over 240 locations.

### ***Agencies associated with credit unions and building societies***

9.18 Credit unions and building societies also use agencies to extend their range of services. For example the Bass & Equitable Building Society has agencies operating throughout Tasmania. The agencies are owned and operated by various types of businesses. The staff are supplied by the owners of the business. They operate during normal business hours and provide services such as new account opening and over-the-counter deposits and withdrawals. New accounts are limited to basic transaction accounts and term investments.<sup>19</sup> The Upper Hunter Credit Union also uses an agency model to increase the number of outlets offering its services. It has two agencies staffed by agents who are paid on a commission basis.<sup>20</sup>

## **Shortcomings**

9.19 Although the various agencies and in-store facilities vary in the level of service they provide, some submissions raised concerns about the adequacy of the service delivered. They include:

- limited services especially the level of access to professional bank staff; and
- privacy and security concerns.

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15 *Submission* 131, p. 1.

16 APRA, Points of Presence.

17 *Submission* 131, p. 2.

18 APRA, Points of Presence.

19 APRA, Points of Presence.

20 APRA, Points of Presence.

### ***Limited services***

9.20 One of the main difficulties for agencies arises from consumer expectations especially where the agency is intended to substitute for the loss of traditional branch services. In the view of the Murgon Shire Council, in-store banking seemed to be a form of shared facility, but is ‘essentially a downgrading of banking services’.<sup>21</sup> The Manilla Shire Council also equated the ‘non-traditional channel’ of banking using the agency model with an unsatisfactory level of banking service. It argued:

Agencies have not got any autonomy at all. Every decision, no matter how trivial, has to be referred to the regional centre or head quarters for resolution. In addition, no professional advice is available to rural residents, who are in many instances farmers and graziers in need of professional advice from time to time—especially in testing drought circumstances such as has been the situation over the last couple of seasons.<sup>22</sup>

9.21 The Shire of Victoria Plains endorsed this viewpoint. It asserted bluntly that agencies do not have the facilities, the expertise or the options for an acceptable long-term comprehensive banking service.<sup>23</sup> The Guyra Shire Council and the Boonah Shire Council also mentioned the limited access to professional staff with no decision making authority. In many cases customers are advised to contact the bank’s regional office for anything other than a deposit or withdrawal.<sup>24</sup>

9.22 The Local Government Association of Tasmania maintained that these agencies still tend to be paper-based and pass book oriented so that it is not always possible to receive a bank balance or transfer funds between accounts.<sup>25</sup> It stated further:

Agency arrangements do not provide Loan Managers, Financial Advisers or any other form of professional service usually found in a branch. Roving or mobile officers tend to have limited authority to assess and approve transactions and are generally subject to high-turnover. While professional and competent they are generally not from the local community and often have little knowledge or understanding of local circumstances.<sup>26</sup>

9.23 Chapter 3 highlighted the growing gulf in country Australia between the customer and the bank as a major concern not only for individuals but for local

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21 *Submission 29*, p. 1.

22 It stated further that rural residents in the Manilla Shire Council’s area of responsibility who do not have access to a local bank manager (who would have knowledge of local prevailing circumstances) for professional advice and assistance experience mental anxiety. *Submission 91*, pp. 1–2.

23 *Submission 49*, p. 1.

24 *Submission 50*, p. 2 and *Submission 92*, p. 1.

25 *Submission 43*, p. [2].

26 *Submission 43*, p. [2].

businesses and the community as a whole. Clearly, the agency model while providing basic banking services does not help to establish or nurture that close contact between customers and their financial institution that many people expect and value.

### ***Privacy and concerns about security***

9.24 The Country Women's Association of Australia noted that confidentiality is a major problem when the bank agency is in the supermarket.<sup>27</sup> The East Gippsland Shire Council also noted that 'there is a privacy issue of a local business knowing "your business"'.<sup>28</sup> Councillor John Lee, Nanango Shire Council, stated simply that an in-store banking institution is not like a bank itself:

You go into the chemist shop; it is the chemist. They have people for over-the-counter prescriptions and you do your business on the side there. That banking atmosphere has gone.<sup>29</sup>

9.25 The Local Government Association of Tasmania raised the matter of security. It suggested that agencies are not often equipped with appropriate safety measures as would be found in a fully-serviced banking facility.<sup>30</sup> The Hindmarsh Shire Council also raised the matter about privacy and security.<sup>31</sup>

9.26 Evidence suggests that once banking services are delivered outside the traditional branch and especially through a third party, some customers feel uneasy about matters such as privacy and security. Similar concerns are discussed at relevant stages in the report dealing with giroPost and Rural Transaction Centres. The Committee notes these concerns and summarises its findings on this matter later in this chapter (see para 9.49).

## **Banks' view**

9.27 ADIs accept that some of the agency arrangements used as substitutes for the traditional bank branch do not measure up to customer expectations. Dr David Morgan, CEO, Westpac, acknowledged that their in-store facilities:

deliver services with fewer staff and lower costs. They are not everything our regional customers would wish, but they do meet their needs for more convenient lower cost services. It's a balancing act.<sup>32</sup>

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27 *Submission 73*, p. 1.

28 *Submission 75*, p. 4.

29 *Committee Hansard*, 22 May 2003, p. 481.

30 *Submission 43*, p. [2].

31 *Submission 87*, p. 2.

32 Dr David Morgan, Committee for Economic Development of Australia, Address, Sydney, 21 August 2000, p. 10.



9.28 Along similar lines, the ANZ informed the Committee that while ‘the agencies and local link agencies may not provide a full range of financial services on-site, they do offer the majority of transaction services including small business deposits and can arrange mobile manager services for customers with lending or investment requirements’.<sup>33</sup>

## Summary

9.29 The Committee understands that the very purpose of establishing an agency is to deliver banking services but at reduced costs. It follows that the level of service will not be the same as that delivered through fully operational branches. Nonetheless, there appears to be the potential for ADIs to use agencies more effectively to improve and expand banking and financial services.

9.30 Before considering measures that could be taken to improve the delivery of banking services through the agency arrangement, the Committee looks at another third-party relationship involving Australia Post.

## Australia Post

9.31 Australia Post has offered personal banking on behalf of the Commonwealth Bank since 1911. It has an Australia-wide network of 3,861 post offices which provide access for bill payments and banking. A majority of outlets are equipped with electronic equipment which is capable of delivering on-line financial transactions.

9.32 A major step forward in the delivery of banking services by Australia Post occurred in July 1995 when it launched its giroPost service. This service provides access to card-based, PIN-authorised banking services including deposits, withdrawals, account balances, acceptance of new account applications and payment for credit card bills. It also conducts passbook transactions for the Commonwealth Bank.<sup>34</sup>

9.33 The giroPost network was established as ‘a national neutral delivery channel, with no single partner financial institution being offered prominence over another’. According to Mr Michael McCloskey from Australia Post:

The giroPost platform is a generic system which provides each participating financial institution with a uniform system that delivers identical banking transactions right across Post’s online network.<sup>35</sup>

9.34 This arrangement means that the customers of 78 financial institutions are able to use giroPost to process electronic transactions at 2,962 Australia Post outlets of which 1,184 or 40 per cent of the outlets are in rural and regional areas.<sup>36</sup>

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33 *Submission* 121, p. 5.

34 *Submission* 106, p.1.

35 *Committee Hansard*, 12 March 2003, p. 382.

9.35 Statistics show that the number of giroPost outlets, unlike agencies, has been growing steadily since their inception in 1995 from 2,557 to 2,962 at June 2002 (see Table 9.1, p. 136). GiroPost, however, is not available at all localities. Nine hundred licensed post offices, 800 of them in regional areas, are not connected to the electronic network. These small, manual post offices are only able to offer very limited banking services using Commonwealth Bank passbook accounts.

9.36 Australia Post informed the Committee that an outlet with less than 12,000 transactions annually of a financial nature, which encompasses billpay, money orders and banking, and takes into account current and anticipated volumes, is not regarded as commercially viable for giroPost.<sup>37</sup> Mr McCloskey told the Committee:

Of the 899 manual LPOs that we have, almost 40 per cent conduct less than 10 agency or banking type transactions a day. That is less than 2,500 a year. Almost 40 per cent conduct between 10 and 20 of those types of transactions a day. That is somewhere between 2,500 and 5,000 a year. The remaining 193, or just over 21 per cent, conduct between 20 and 40 agency or banking type transactions a day—in other words, between 5,000 and 10,000 a year—so that 80 per cent of the non-electronic outlets conduct very small levels of business. A number of these—around 100 of the 899—are in metropolitan areas, so that it is really somewhere around 800 that are in the areas of particular interest to the committee.<sup>38</sup>

9.37 The Post Office Agents Association accepted that 12,000 transactions per annum was an accurate benchmark for measuring commercial viability. It stated:

At 10,000 transactions per annum Australia Post considers it mandatory to have their technology. If you are a licensee you do not have any say in it—you get the technology and therefore you get access to giroPost. At 12,000 transactions per annum it starts to make a bit of money for you.

...

Australia Post says that it costs around \$20,000 to put the technology into a post office. If they are going to spend \$20,000 plus ongoing costs and they are only going to get 10,000 transactions a year out of it, it is an economic decision for them.<sup>39</sup>

36 Australia Post, *Submission 106*, p. 2. The figures produced at the public hearing differed a little from the submission. At the hearing the Committee was informed that giroPost now provides services for the customers of 10 banks, one building society, one mortgage originator and 60 credit unions—some 72 financial institutions in all. The evidence also indicated that the number of online retail outlets in the Australia Post network had grown to 2,972. *Committee Hansard*, 12 March 2003, p. 382.

37 Australia Post, *Submission 106*, p. 3. See also *Committee Hansard*, 12 March 2003, p. 382.

38 *Committee Hansard*, 12 March 2003, p. 391.

39 Marie McGrath-Kerr, *Committee Hansard*, 27 February 2003, p. 355.

9.38 Australia Post advised the Committee, however, of a proposal which is being examined to upgrade the capability of outlets in remote areas with low volume banking transactions to deliver a broader range of low cost services. It submitted:

There are indications that a recent upgrade of Australia Post counter technology (netPOS) may facilitate the deployment of a key subset of transactions to a number of non-electronically enabled sites, using lower cost web-based technology. The potential to provide secure access through a standard low-cost PC to a lower level of functionality from the normal Australia Post terminal is being examined.<sup>40</sup>

### ***Business banking***

9.39 Although aimed primarily at personal banking customers, Australia Post, in April 2000, embarked on a pilot scheme with the Commonwealth Bank to provide business banking services to rural areas through selected outlets. Key features of the service are—cash and cheque deposits; overnight credits to customer's accounts; withdrawals; and one-stop convenience for bill payments, business and personal banking, and all postal needs.<sup>41</sup>

9.40 The trial proved successful and the business banking service has been rolled out more widely. As at 30 June 2002, the service was being offered to customers of the Commonwealth Bank, National Australia Bank, BankWest and Adelaide Bank at 320 outlets across Australia of which 300 were in rural and remote areas.<sup>42</sup> By March 2003 this figure had grown to 512 outlets nationally of which two thirds were in rural areas.<sup>43</sup> Australia Post informed the Committee that it intends, in the course of the current year, to make its business banking service available at the remaining giroPost financial institutions through all its rural and remote on-line outlets.<sup>44</sup>

9.41 Overall, the evidence presented to this Committee suggests that Australia Post is held in high regard for the work it is doing in making banking services more accessible to people in country Australia. Generally, witnesses acknowledged its contribution to the delivery of banking services and appreciate its efforts to improve its software and to expand its technology. Moreover, witnesses felt that Australia Post outlets are more attuned to the needs of their customers. Councillor Lykke captured the sentiments of many witnesses in stating:

Australia Post have lots of things going for them but, above all, what they have going for them is that they are aggressive marketers...When the banks

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40 *Submission 106*, p. 3.

41 KPMG, *Small Business Banking in Australia*, A Research Report, February 2002, p. 25.

42 Australia Post, *Submission 106*, p. 2.

43 *Committee Hansard*, 12 March 2003, p. 383.

44 Australia Post, *Submission 106*, p. 3. See also for more recent developments, *Committee Hansard*, 12 March 2003, p. 383.

take that attitude, get out there and start actually looking for business, all our lives are going to improve.<sup>45</sup>

9.42 In reinforcing this view, Mr Samuel Smith, stated simply that the community ‘are generally rapt in the idea [of Australia Post], simply because they, in the country, have access to every bank and institution that people in the cities have, except for ANZ, BankSA and Westpac at this stage’. In his opinion, the introduction of giroPost really brought services back to the community rather than closing them down. He stated that ‘Against the world standard, Australia Post was different to everybody else’.<sup>46</sup>

### **Shortcomings of Australia Post agencies**

9.43 Despite the praise for the work being done by Australia Post outlets, a few witnesses were critical of a number of aspects, notably privacy provisions and limited services for local business.

#### ***Privacy***

9.44 A number of witnesses suggested that people do not feel comfortable conducting their banking business in a post office. Their concerns mirror those raised in connection with people using agencies to conduct their banking affairs. The Manilla Shire Council stated that the post office environment ‘does not contribute towards clients experiencing a feeling of privacy and confidentiality—as is needed for dealing with private and sensitive financial matters’.<sup>47</sup>

9.45 Councillor Robert Smith, Boonah Shire Council, expressed similar sentiments. He stated people are in the same queue buying a stamp as someone doing their banking. He indicated that people like to feel secure and not present their bank book ‘in full view of everybody’.<sup>48</sup>

9.46 Australia Post was not aware that privacy was a significant concern to its customers. Mr Terry Stephens told the Committee:

Bear in mind that the transaction itself is a pretty brief one and largely involves the manipulation of keys on a PIN pad. I do not know what information would be verbalised that would perhaps give rise to concern about privacy. I am not saying there are not any but nothing jumps up at me at the moment to suggest that is a problem. We certainly have not had complaints on that basis.<sup>49</sup>

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45 *Committee Hansard*, 13 March 2003, p. 425.

46 *Committee Hansard*, 13 March 2003, p. 441.

47 *Submission* 91, p. 1.

48 *Committee Hansard*, 23 May 2003, p. 509.

49 *Committee Hansard*, 12 March 2003, p. 390.

He also noted that all Australia Post employees are subject to the Privacy Act and attend specific training programs to ensure that all are aware of their obligations. To his mind, privacy is the cornerstone of Australia Post's business.

9.47 The Post Office Agents Association also maintained that discretion is part of the job. It did not think there was any difference between a bank and a post office when it came to privacy at the counter. Ms Marie McGrath-Kerr, National Chairman, Post Office Agents Association, explained to the Committee:

Many post offices have set aside an area for banking. They have a screen so that any paperwork that is being dealt with is not seen by any other customers who might be standing alongside the customer doing the banking. Obviously that is different from outlet to outlet. But I have seen that myself in many post offices where there is a separately screened privacy area, shall we say—not just banking but any sort of business that is being done at a post office counter. For instance, Billpay is not the sort of thing that you want spread around.<sup>50</sup>

9.48 Nevertheless, Mr Samuel Smith, a former post office agent, was aware of people's reluctance to use the post office because of privacy concerns. He noted, however, that it depends on whether the post office has made provision for privacy. He explained:

There is also the perception that, while you can go into a bank branch and probably not know very personally the person who is serving you, in a licensed post office set-up, or even in an official post office set-up, a person has often been there for donkey's years, knows your family and probably knows everything else about you...so it is definitely a problem, but given the fact that we do not have banks with multiple staff in our towns—maybe here you still do, but in a lot of smaller communities we have not had those for years now—people either drive off to Jamestown or Port Pirie, go to an ATM or do it locally. They have that choice.<sup>51</sup>

9.49 During the course of the inquiry, solutions to address the concerns about privacy and confidentiality became evident. The evidence suggests this matter can be addressed by post office agents paying close attention to creating an environment where their customers feel comfortable in transacting banking business. Practical, low-cost and workable measures such as redesigning or rearranging work space, placement of screens or setting aside a separate area are just some simple examples of ways in which agents could offer reassurance to their banking customers. Displaying prominently a notification that staff are subject to the Privacy Act and are bound to respect the confidentiality of their customers would be another inexpensive means to allay people's concerns about the privacy of their personal affairs. Staff training which places a specific focus on the importance of preserving customer confidentiality

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50 *Committee Hansard*, 27 February 2003, p. 352.

51 *Committee Hansard*, 13 March 2003, p. 440.

would be yet another simple way to improve the public's perception of the integrity of the service. These measures would be equally effective in other agency type facilities.

### ***Small business banking service***

9.50 Mr Walter Brooks, COSBOA, noted the importance of having an adequate banking network within regional and rural Australia 'in a form that enables a full range of transactions to occur'. He cited in particular the difficulties experienced by business in depositing the daily business takings. The findings in chapter 3, identified cash management as one of the major problems for regional businesses. Mr Brooks cited the case of one business person who can make deposits for his bank at the post office but is limited to cash deposits of no greater than \$3,000 per day and is unable to obtain change. According to Mr Brooks:

As a retailer, especially during the summer period, it is now necessary for him to travel approximately half an hour each way to Anglesea, or even on to Geelong, to complete his banking business, thus causing significant cost and disruption to his small business.<sup>52</sup>

The difficulty for business in managing cash flows was discussed in chapter 3, paragraphs 3.26–3.32.

9.51 Looking at this issue from the position of the Post Office agents, Ms McGrath-Kerr pointed out the cost to their business. She explained:

The local supermarket or hotel or service station could conceivably bring in \$20,000, \$30,000 or \$40,000 worth of cash. You could end up spending half the morning counting it, because we are not like a bank, which has note and coin counting facilities. It could tie up a staff member for an entire morning on one deposit and the commission out of that might be \$1.23. It is a business decision and Australia Post is monitoring the amounts of cash that are deposited through the small business bankings. The average is certainly not \$3,000—it is in the hundreds. So it would be only the odd customer who would need the facility.<sup>53</sup>

9.52 Mr Stephens, Australia Post, agreed with the view that rarely would Australia Post outlets be asked to accept deposits of over \$3,000 a day from local businesses. He suggested:

The need for more than the \$3,000 limit is an extreme one and, in those situations, we are more likely to go with a local arrangement with the particular customer and the post office operator to work out some way of accommodating that requirement, given it is a very infrequent one.<sup>54</sup>

He stated further:

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52 *Committee Hansard*, 26 February 2003, p. 287.

53 *Committee Hansard*, 27 February 2003, p. 354.

54 *Committee Hansard*, 12 March 2003, p. 384.

Rather than putting an across the board higher limit, we would much prefer to approach that on an individual site basis, which we can do. We have the flexibility of being able to do that and I am signalling that we have the willingness to do that. We have made special arrangements at those locations for customers with particular needs.<sup>55</sup>

## Scope for expansion

9.53 Interestingly, rather than dwell on the shortcomings of the banking services provided through Australia Post, most witnesses preferred to emphasise the value in developing and extending these services. Clearly they saw that this particular model offers great potential to deliver services particularly in areas without a banking facility. The ABA considers the giroPost as a ‘superior’ model and encourages Australia Post to expand the service ‘as they are the most appropriate multi-service provider in regions without any other prospect of an over the counter service.’<sup>56</sup>

9.54 Indeed, the services offered by giroPost enabled the National Australia Bank to honour its commitment to provide over-the-counter services to its customers when it decided last year to withdraw 56 regional branch services. Soon after the bank announced its intention to close these branches, Mr Frank Cicutto, CEO, wrote:

Linking with Australia Post created 2800 new points of contact throughout Australia where people can do transactional banking. It allowed us to make the promise we would not leave a rural community without a banking alternative. It also allowed us to return to some areas where we had not been represented.<sup>57</sup>

9.55 The National stated that while it ‘does not consider the giroPost service to be a complete replacement of the full branch banking service, it is viewed as a viable transaction delivery channel for small rural communities’.<sup>58</sup> More importantly, the National recognised the potential for giroPost to expand the delivery of transactional banking services into rural and remote communities where it currently has no physical presence.<sup>59</sup>

9.56 The Catholic Women’s League Tasmania suggested that all major Australian owned banks, credit unions and building societies should make use of post offices in country towns.<sup>60</sup> Supporting this view, the Manangatang Improvement Group Inc stated further that:

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55 *Committee Hansard*, 12 March 2003, p. 386.

56 *Supplementary Submission* 117, p. 9.

57 Frank Cicutto, ‘Banking in a Competitive Environment’, *Journal of Banking and Financial Services*, vol. 116. no. 2, April 2002, p. 8. See also *Submission* 118, p. 3.

58 *Submission* 118, p. 3.

59 *Submission* 118, p. 3.

60 *Submission* 28, p. 1.

While Gyro post has most Banking Facilities two major banks have still not made themselves available through this venue. We would like the government to pressure the Bank of Melbourne to become involved with this service as approximately half our community bank with this bank.<sup>61</sup>

9.57 The Post Office Agents Association saw the opportunity to use existing resources and infrastructure to further enhance of the delivery of financial services. They claimed that their outlets have the physical platform in place and their staff have the experience, training and discipline to extend this service to meet current challenges. The Association supported measures that would:

- expand the electronic network of Australia Post to all Licensed Post Offices and appropriate CPAs in Australia;
- allow rural, remote and some regional LPOs to offer ATM services at their premises;
- extend the Australia Post technology platform that supports their type of business and add a few, but critical, financial institutions to those that already have commercial arrangements with Australia Post.<sup>62</sup>

9.58 Australia Post is responding to customer needs and is conscious that it can have a significant role in delivering banking services. For example, it is investigating ways to use its resources so that it could:

- facilitate transactions for bank customers in the collection of credit or transaction cards;
- provide a booking service whereby customers can make an appointment to meet a travelling adviser;<sup>63</sup> and
- make available suitable accommodation for customers to meet a bank officer.<sup>64</sup>

9.59 The Committee recognises the potential for Post Office outlets in partnership with ADIs to move beyond simply providing basic transactions services for local residents to providing opportunities that would allow banks to establish strong personal links with their customers.

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61 *Submission 90*, p. 1.

62 *Submission 77*, pp. 2, 13.

63 *Committee Hansard*, 12 March 2003, p. 385.

64 *Committee Hansard*, 12 March 2003, p. 385. Australia Post is also conducting market research to determine what further services might be provided under its banking services banner. Serious attention is being given to: account transfer functionality; credit/debit card pick up from Australia Post outlets; and credit/debit card activation at Australia Post outlets.

Australia Post is confident that it will continue to extend and develop its banking services as more financial institutions join giroPost, as its on-line network grows and as it expands its product range. See *Submission 106*, p. 5.



9.60 In considering the provision of basic transactional services, the Committee accepts that even with Australia Post's commitment to provide a better banking service and the enthusiasm of Post Office agents to expand their business, there are some remote locations where the customer base will simply not support a commercially viable giroPost facility. The Committee visited Yacka, a small town in South Australia, which only has a mail sorting facility. Similarly, the Latrobe City Council informed the Committee that in the case of Traralgon South, requests for a sub-agency for Australia Post has been unsuccessful.<sup>65</sup> In such cases, a number of witnesses suggested that post office outlets could be provided with additional funding to enable them to develop their services.<sup>66</sup> Some steps are being taken under the Rural Transaction Centre Program to ensure that outlets with transactions over 5,000 will be provided with giroPost. This is discussed in the following chapter.

## Summary

9.61 The Committee shares the optimism of both Australia Post and the Post Office agents about the increased role that post office outlets could have in providing banking and financial services to regional, rural and remote Australia. It accepts that financial institutions could do more to use post office outlets to better service small communities. It encourages financial institutions not yet using giroPost to consider doing so.

9.62 While people are generally satisfied with the level of service for basic banking transactions delivered through Australia Post, they still do not have ready access to financial advice from bank staff. This lack of access to advice from local bank staff was cited in chapter 3 as a major concern for individual residents, local businesses and the community as a whole. It would appear that although steps are being taken to ensure that small communities have access to basic banking transactions less attention is being given to ensuring that financial advice is readily available.

9.63 The Committee notes that Australia Post is exploring ways to promote the provision of face-to-face banking and financial services such as introducing a booking service and making available accommodation for meetings between customers and their bank. It urges ADIs, Australia Post and the Post Office Agents Association to continue to investigate and experiment with various means whereby Post Office outlets can be more active and constructive in assisting banks to foster and maintain close personal links with their customers.

9.64 The difficulties experienced by small business in regional, rural and remote Australia in gaining access to banking services also requires further consideration. Australia Post and the Post Office Agents have shown themselves willing to act as facilitators in this regard. Even so, small businesses in many areas of country Australia face on-going difficulties with managing their cash flow and also with obtaining assistance from banking professionals who understand the local economy.

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65 *Submission 38*, p. 11.

66 Robert Adam, *Committee Hansard*, 13 March 2003, p. 425.

## **Conclusion**

9.65 The Committee accepts that the services provided by agencies, including giroPost, are limited. For communities struggling to retain a full branch service, however, they provide access to basic banking transactions. Nonetheless, it is clear that consumers, including small business, miss the personal contact offered through a traditional branch and it is in this area that banks need to show some initiative and willingness to pay heed to the needs of their customers.

# CHAPTER 10

## RURAL TRANSACTION CENTRES

10.1 The giroPost experience demonstrates the enormous advantages to be gained through co-operation between financial institutions and other enterprises. Such collaboration coupled with advances in technology broaden the scope for improved delivery of financial services to country Australia.

10.2 This chapter looks at another venture, the Rural Transaction Centre (RTC) Program, that is presenting similar opportunities for various parties to enter a joint arrangement to provide a range of services including banking and financial services to small country towns. The first section of this chapter documents the history of the CreditCare initiative—the predecessor to the RTC program—before examining in detail the operation of RTCs.

### CreditCare

10.3 Credit unions and the Commonwealth initiated the CreditCare project in June 1995 with the aim of using the self-help and community focus of credit unions to meet the challenge of providing financial services in ‘no bank’ towns.<sup>1</sup>

10.4 Within two years of its establishment, the program had contacted 85 communities around Australia and facilitated the development of 29 new establishments.<sup>2</sup> In light of its success, the project received in 1997 an additional \$2.4 million to extend its operation for a further three years.<sup>3</sup> Almost 60 communities—serving around 40,000 residents—regained access to financial services through initiatives under the CreditCare program<sup>4</sup> (see appendix 6).

10.5 The funding established a network of CreditCare Field Officers, employed through CUSCAL and with experience in the provision of financial services, to work with communities to bring financial services back to their town. Community groups such as the Crows Nest Tourist and Progress Association appreciated the early assistance offered through the CreditCare program. According to members of the

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1 Press Release, Minister for Primary Industries and Energy, Mr John Anderson, 13 May 1997 and Press Release, Minister for Primary Industries and Energy, Mr John Anderson, 11 November 1997.

2 Press Release, Minister for Primary Industries and Energy, Mr John Anderson, 13 May 1997.

3 *Submission* 109, p. 9. See also Dr Gary Lewis, ‘Laughing All the Way to the Credit Union’: the CreditCare Experience in ‘No Bank’ Towns 1995–2000, ACCORD, University of Technology, Sydney, November 2001, p. 72.

4 *Submission* 109, p. 9. See also Dr Gary Lewis, ‘Laughing All the Way to the Credit Union’: the CreditCare Experience in ‘No Bank’ Towns 1995–2000, ACCORD, University of Technology, Sydney, November 2001, p. 72.

association, CreditCare provided the necessary outside expertise, the confidence building, the structure and finally the support to push their venture of a community bank ‘over the line’.<sup>5</sup>

10.6 It should be emphasised that CreditCare did not cover the start-up costs or provide the initial seed funding for institutions to open services in smaller communities in regional Australia. Rather the program relied on community support to develop a detailed business plan to demonstrate the viability of the service provision to a financial institution.<sup>6</sup> Dr Gary Lewis explained:

The model was carefully designed to neither directly fund nor subsidise the establishment of credit union branches or agencies. Rather the program provided resources to assist communities *themselves* discover the means of re-establishing financial services utilising existing resources, and link these with a host institution. CreditCare’s maxim was that it was in a community not simply to *help* but to help a community *help itself*.<sup>7</sup>

10.7 CUSCAL believed that the lack of funds in this area was a real constraint on the capacity of the program and that it reached a point where there ‘seemed to be limited opportunities for the sector—largely, the credit union sector—to continue to open those services without some additional support for some of the infrastructure and start-up costs’.<sup>8</sup>

10.8 While the CreditCare scheme was a valuable model that offered important lessons for policy makers, it became apparent that ‘a wider program was required to address growing service needs in towns without banks.’ Since the closure of the CreditCare program in 2000, federal initiatives to deliver financial services to rural areas have been implemented through the Rural Transaction Centre scheme. As with the CreditCare program, the RTC programs focus on small towns without banks.<sup>9</sup>

## **Background to the RTC programme**

10.9 The RTC scheme was launched in March 1999, as a Commonwealth Government initiative to restore services to rural and regional Australia. It is a \$70 million program over five years and was funded from the sale of the first tranche of Telstra to establish 500 RTCs in rural areas with populations of up to 3,000.

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5 Notes taken during the Committee’s site inspection of the Crows Nest Community Bank, 21 May 2003.

6 *Submission* 109, p. 23.

7 Gary Lewis, ‘Laughing All the Way to the Credit Union’ The CreditCare Experience in ‘No Bank’ Towns 1995–2000’, *ACCORD*, University of Technology, Sydney, November 2001, p. 10.

8 *Committee Hansard*, 25 February 2003, p. 167.

9 *Submission* 109, p. 23.

10.10 The Program was designed as a grassroots measure to provide funds to help small communities with practical and focused support.<sup>10</sup> It is based on the premise that in some instances the provision of a particular service such as a banking or welfare service may simply not be feasible as a stand-alone operation but may be viable in conjunction with the provision of a number of other services. In essence, the RTC model is based on the core assumptions that:

- there are extensive economic and community benefits to be gained from the collocation of government, private sector and community services; and
- in the longer term, the centres will develop into sustainable community managed small businesses.<sup>11</sup>

10.11 The RTC scheme involves considerably more funding than the CreditCare project, including options to subsidise infrastructure and operational costs. As noted above, the limitation in being able to assist with start-up costs was a significant weakness in CreditCare projects. CUSCAL was of the view that the RTC program appeared to offer a much 'better funded model that would enable some of those issues to be addressed'. It should be noted that, after initial funding for start-up costs or running costs during an establishment period, RTCs are expected to be self sustaining.<sup>12</sup>

10.12 Each RTC is tailored to meet the varied and unique needs of the community it serves. The types of services they offer include:

- financial services (including business services)
- post, phone, fax, Internet
- medicare easyclaim
- Centrelink
- facilities for visiting professionals
- printing, secretarial services
- tourism, involvement in employment schemes
- insurance, taxation
- federal, state and local government services.

In 1999, Senator the Hon. Ian MacDonald, then Minister for Regional Services, Territories and Local Government, explained:

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10 *Submission 109*, p. 25.

11 Department of Transport and Regional Services, *Submission 127*, p. 4.

12 Joint Media Release, John Anderson, Minister for Transport and Regional Services and Senator Ian Macdonald, Minister for Regional Services, Territories and Local Government, '\$70 million kickstart for Rural Services', 11 March 1999, No. A29/99.

The local communities decide the range of services, the service providers, the location of the centre and manage its operation. We just provide the set up funds.<sup>13</sup>

10.13 Before plans can proceed in earnest, those applying for funds must establish a case showing that their proposal is commercially viable. The Department of Transport and Regional Services described the process in applying for RTC funds:

Generally RTC applicants are required to demonstrate that any RTC will be viable and sustainable in the longer term either through the anticipated business turnover or indirectly through the commitment of a third party such as a local government.<sup>14</sup>

10.14 It informed the Committee that in some instances the RTC Program has contributed to the costs associated with providing a building to house the financial services or assisted with the costs of equipment such as ATMs and safes. It noted that generally the financial institution funds the installation and running costs of terminals and other significant equipment.<sup>15</sup>

### **The RTC program and Post Office outlets**

10.15 As part of the RTC Program, the Commonwealth Government is funding eligible Licensed Post Offices to install Australia Post's electronic point of sale (EPOS) equipment. It allows access to giroPost.

10.16 As noted in the previous chapter, there are approximately 900 Australia Post outlets nationwide that do not have the electronic equipment to deliver on-line financial transactions. According to both Australia Post and the Post Office Agents' Association, 12,000 transactions of a financial nature are required before the installation and use of giroPost is commercially viable. The RTC Program provides two avenues for non on-line outlets in rural and remote areas to apply for funding for the provision of giroPost:

- under the business planning process a community group may request funding for a range of functions including giroPost to be located at the local postal outlet; and
- a separate phased process allows the Licensee to apply directly for giroPost funding from the RTC Program.<sup>16</sup>

10.17 Under the Program, the installation of EPOS is being implemented in stages:

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13 Press Release, Senator the Hon Ian Macdonald, Minister for Regional Services, Territories and Local Government, 'Launch of the first Rural Transaction Centre, Eugowra NSW', 28 October 1999: address, MS27/99.

14 Department of Transport and Regional Services, *Submission 127*, p. 4.

15 Department of Transport and Regional Services, *Submission 127*, p. 4.

16 *Submission 106*, p. 3.

- phase 1—Licensed Post Offices processing over 5,000 transactions at 30 June 2001;
- phase 2—Licensed Post Offices processing over 5,000 transactions with limited financial services.<sup>17</sup>

10.18 It should be noted that Australia Post informed the Committee that of their 900 outlets without giroPost only 21 per cent or 193 record between 5,000 and 10,000 transactions a year and 40 per cent conduct between 2,500 and 5,000.

10.19 In effect, the scheme would see the RTC program fund the provision of giroPost in circumstances where the Post Office outlet falls below the required 12,000 transactions. As at March 2003, one hundred and four had been brought on-line over the previous 18 months or so and a further 60 had been invited to apply through the RTC program. Mr McCloskey, Australia Post, explained:

The capital funding has been provided from the RTC program. In the initial stages, any shortfall in the operating costs are being met under the RTC program. Once that program finishes, part of the condition is that the licensees will then become liable—if that is the correct word—to pay an annual technology fee to Australia Post, which is something that licensees currently do under the EPOS system, and Australia Post will look at picking up the shortfall if the number of transactions in those particular outlets does not reach the 10,000 limit.<sup>18</sup>

10.20 The Post Office Agents Association welcomed the extension of the RTC program to some of their manually operated outlets but could see advantages in extending EPOS to all post offices which it suggested ‘would be a huge boost to country areas.’ It noted correctly, however, that some post offices may be so small that even with technology they are never going to be viable giroPost facilities.<sup>19</sup>

## **RTCs—broad support**

10.21 Partnership between various groups—private enterprise, community groups and government—are central to the success of the RTC program. The CPS Credit Union (SA) Ltd stated that communities must be prepared to co-contribute to the banking services within their community. Similarly it argued that governments (State and Local) will need to co-operate more with the communities and financial institutions to provide some of the infrastructure needed.<sup>20</sup>

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17 Rural Transaction Centres, ‘Licensed Post Offices;  
<http://www.dotars.gov.au/rtc/epos/index.htm> (7 April 2003).

18 *Committee Hansard*, 12 March 2003, p. 393. The annual technology fee is in the vicinity of \$1,500.

19 *Committee Hansard*, 27 February 2003, p. 358.

20 *Submission 59*, p. 1.

### ***Support from local government***

10.22 Many local councils recorded their approval of the RTC model recognising its potential for expanding services in smaller country locations.<sup>21</sup> Mr Goodfellow, Elders Rural Bank, stated that one of the better options for delivering financial services in small towns was through the shire or local council. He maintained:

The rural transaction centre concept—with a lot of negotiation and discussion amongst local government associations and members and, more recently, at a higher level of government—has provided opportunities and cash flow for rural transaction centres to prosper.<sup>22</sup>

10.23 Mr Nigel Hand from the Port Broughton RTC agreed with the view that the local council can have a pivotal role in both establishing the Centre and ensuring its viability by offering assistance such as providing premises at less than cost, access to equipment and help with staffing.<sup>23</sup> In Blackbutt, the RTC runs at a loss of approximately \$8,000 per annum but continues to operate through the direct assistance of the Nanango Shire Council.<sup>24</sup> Indeed, in numerous cases the involvement of local government in supporting RTCs has been essential.<sup>25</sup>

10.24 The Gulin Gulin & Weemol Community Council Aboriginal Corporation submitted that for several months it had been working towards the development of a business plan for the operation of an RTC in Bulman. It saw the RTC program as an ideal solution—‘a proven means to provide additional services’.<sup>26</sup>

10.25 The Narrandera Shire Council also recognised the advantages in having RTCs provide small communities with access to electronic banking services. An RTC was opened on 27 August 2003 at Barrellan due to the joint efforts of the Council and the owner of the Australia Post outlet through the Department of Transport and Regional services. It offers e-banking facilities using giroPost, Centrelink Access Point, Medicare easyclaim, public access to business equipment and to Internet and e-mail facilities.<sup>27</sup> The Council urges the Government to continue with this program.<sup>28</sup> Endorsing this view, the Summerland Credit Union Limited submitted that:

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21 CUSCAL, *Submission* 109, p. 26. See also The Gunning Shire Council, *Submission* 56, p. 1.

22 *Committee Hansard*, 12 March 2003, p. 374.

23 Information gathered during the Committee’s inspection of the RTC at Port Broughton, 13 March 2003.

24 Information gathered during the Committee’s inspection of the RTC at Blackbutt, 21 May 2003.

25 See also the Manangatang Improvement Group Inc, *Submission* 90, p. 1.

26 *Submission* 8, pp. 1–2.

27 Press Release, Narrandera Shire Council.

28 *Submission* 36, p. 1.



The continued establishment of RTCs is to be applauded and will no doubt provide a valuable service to a good many rural and remote communities. This is especially so for those communities deemed too small to support any sort of commercial enterprise be it bank or credit union. Not only do RTCs meet their banking needs but also assist in providing some of the services they have traditionally lacked or replacing those that have disappeared following the latest round of withdrawal of many government services.<sup>29</sup>

10.26 It envisaged the expansion of RTCs not only as filling a gap in the provision of banking services to rural and regional communities but as a means to reverse the trend of declining services. It stated:

The maintenance and expansion of the RTC scheme will have a number of positive flow on effects. Not only will it provide essential banking services to a large part of regional Australia from which the banks have withdrawn services but it will also assist in creating a significant number of employment prospects within that area.<sup>30</sup>

10.27 Likewise, the Nanango Shire Council welcomed the establishment of an RTC in Blackbutt which provides many government services and has become ‘a true advantage’ for its residents. According to the Council, the RTC is instrumental in cutting travelling time and expense for residents who do not have to journey to a larger regional town to avail themselves of these services.<sup>31</sup>

### ***Support from financial providers***

10.28 There are many financial service providers keen to participate in the program. The Summerland Credit Union Limited, told the Committee that credit unions in particular have a social charter to provide cooperative banking services to those overlooked by the traditional banking services. It maintained that participation in the RTC program ‘sits very comfortably with this charter and is an area in which the credit union industry has considerable expertise’. It saw a role for credit unions in facilitating the roll out of such a program.<sup>32</sup>

10.29 A number of the major banks have also shown an interest in the program. The ANZ is actively involved in the RTC initiative through providing full personal and business banking transaction services at the Victorian Rural Transaction Centre in Welshpool and the South Australia RTCs in Port Broughton and Port Macdonnell.<sup>33</sup> It noted:

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29 *Submission 116*, p. [5].

30 The Summerland Credit Union Limited, *Submission 116*, p. [6].

31 *Submission 10*, p. 1.

32 The Summerland Credit Union Limited, *Submission 116*, p. [6].

33 *Submission 121*, p. 8.

The RTC program is a viable alternative because the third party who operates the RTC, such as the local council, community organisation or chamber of commerce, provides the infrastructure and staffing costs. This provides an opportunity for ANZ to provide face-to-face banking services on a lower cost basis than would otherwise be possible.<sup>34</sup>

It supported this initiative which in its view has been successful in increasing the level of face-to-face banking in a number of rural and regional locations.<sup>35</sup>

10.30 Westpac is also involved in the program. It informed the Committee that the local community in Leitchville, Victoria, approached it to purchase its former bank premises. Westpac explained that:

The community only had \$10,000 to invest so Westpac subsequently agreed to make the sale for that amount. The community has subsequently established a Rural Transaction Centre which includes a Westpac In-store.<sup>36</sup>

### **Shortcomings of RTCs**

10.31 Although many witnesses supported the RTC program, some nonetheless criticised or raised questions about the followings aspects:

- the implementation process;
- the limited range of services;
- commercial viability;
- maintaining momentum; and
- future funding.

The following section looks in turn at the issues identified above.

#### ***Implementation—slow start***

10.32 A number of witnesses were disappointed with the program's slow start. The Finance Sector Union of Australia observed that there were 49 RTCs throughout Australia which is 'hardly an adequate replacement for the thousands of branches closed across the country'.<sup>37</sup> The Summerland Credit Union, which has been involved in one such establishment at Coraki, also noted that only 49 RTCs had been established with a smaller number still in the pipeline.<sup>38</sup> A recent update shows that to

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34 *Submission* 121, p. 8.

35 *Submission* 121, p. 4.

36 *Submission* 110, p. 10.

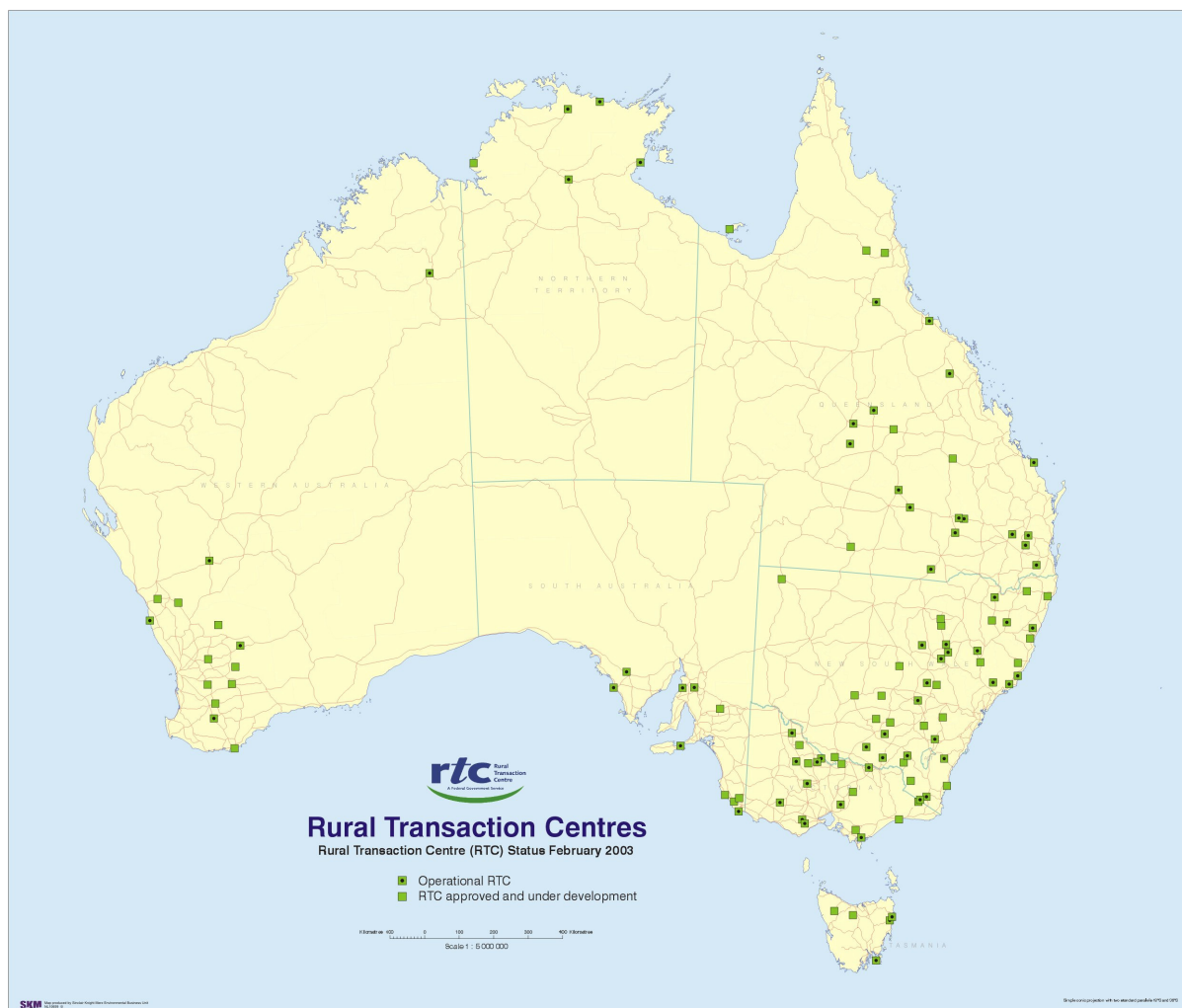
37 *Submission* 69, p. 2.

38 *Submission* 116, p. [6].

October 2002, 124 RTCs had received approval and there were 65 communities which had operational RTCs.<sup>39</sup> This number is still far short of the goal of 500 RTCs. Further, nearly one third of these establishments were initiated under the CreditCare scheme.

10.33 According to Mr Shaun McBride, Local Government Association of New South Wales, the program's goals had probably been optimistic but the program was gathering some momentum.<sup>40</sup>

**Figure 10.1—Status of Rural Transaction Centres, February 2003**



10.34 In drawing attention to the time taken to establish an RTC, the Summerland Credit Union cited a number of reasons for the slow start ranging from 'the difficulties in galvanising local support, through to overcoming the bureaucratic obstacles associated with any government funded scheme'.<sup>41</sup> It suggested that the program

39 Department of Transport and Regional Services, *Submission 127*, p. 1.

40 *Committee Hansard*, 25 February 2003, p. 158.

41 The Summerland Credit Union Limited, *Submission 116*, p. [6]. See also evidence by the TCU, *Committee Hansard*, 21 July 2003, p. 527.

administration be streamlined to speed up the process of establishing an RTC. In its view, this process could involve ‘the elimination of a number of layers of government involvement with say funding provided direct to local government’.<sup>42</sup>

10.35 CUSCAL also identified problems with delays in the establishment of new RTCs and the lengthy approval processes as major concerns. It claimed that ‘limited support for the community building phase of compiling applications and business plans’, placed a high demand on volunteer community members.<sup>43</sup> It also recommended a streamlining of approval and review processes for communities to reduce waiting times.<sup>44</sup>

10.36 Based on its experiences with establishing RTCs at Dirrandbi and Bell, the Heritage Building Society found the process ‘fairly cumbersome and time consuming.’ It also noted the difficulties during the start-up period of an RTC and recognised the need for funding for the initial inquiry and survey costs to establish the business case for such a facility.<sup>45</sup> Mr Read-Smith acknowledged that the early exploration stage could be a big impost on a community to raise funds for the surveys to establish the commercial viability of a proposal. He added ‘particularly as it is moneys that is, in a sense, at risk, it may not lead, depending upon outcome of the business case analysis, to a project getting off the ground’. He suggested that this is an area where governments could play a role.<sup>46</sup>

10.37 The Committee appreciates the importance of early and well-targeted assistance from the Department of Transport and Regional Services to guide interested parties through the process of developing a business plan. It notes the valuable role taken by field officers under the CreditCare scheme in facilitating and expediting the early stages of investigating and planning for the establishment of a community-based service provider.

### ***Limited range of services***

10.38 While appreciating the contribution that RTCs are making in providing financial services, CUSCAL was concerned that a number of RTCs appear to offer very limited services and some are operating without a financial service component. It considered the provision of a financial service in an RTC as essential to its viability.<sup>47</sup> It claimed:

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42 The Summerland Credit Union Limited, *Submission* 116, p. [6].

43 *Submission* 109, p. 26.

44 *Submission* 109, p. 27.

45 Fraser Read-Smith, *Committee Hansard*, 23 May 2003, pp. 492–3.

46 *Committee Hansard*, 23 May 2003, p. 494.

47 *Committee Hansard*, 25 February 2003, p. 167. See also *Submission* 109, p. 27.

RTCs are ‘output’ focused, often with limited services (eg Medicare Easyclaim). While important, these services alone do not deliver on the program aims.<sup>48</sup>

10.39 The Department of Transport and Regional Services informed the Committee that of the 65 communities that have operational RTCs only 26 deliver a financial service through either a bank, credit union, building society or community bank.<sup>49</sup>

10.40 CUSCAL also maintained that the RTC model had not expanded to seek new service areas or partnerships with private and public sector bodies. It suggested that the program has limited focus that is tied to creating a viable commercial model to sponsor additional services.<sup>50</sup>

10.41 The Committee accepts that progress in implementing the program is disappointing and is particularly concerned that so few RTCs offer a financial service.

### ***Meeting the needs of business***

10.42 RTCs share the same problems as agencies and post office outlets in catering for the particular needs of small business (see paragraphs 9.19–9.22). They do not always meet or suit the requirements of business customers and face security and privacy issues. For example, most RTCs do not facilitate business transactions including business cash deposits and withdrawals nor form part of the commercial world providing advice and access to finance so necessary for small businesses to develop. The Gunning Shire Council informed the Committee that it was successful in establishing an RTC within the Gunning Post Office. It noted, however, that only \$3,000 can be banked in any one day and third party cheques cannot be banked into individual accounts.<sup>51</sup> The Australian Centre for Co-operative Research and Development stated:

The capacity of locally owned businesses and social enterprises can be enabled by locally based and supported financial institutions that understand and help their business customers (eg develop business plans or look at alternative sources of finance to expand and invest and overcome collateral difficulties, and business cash flow difficulties). Recent years have seen a huge decline in rural banking services that have not been replaced by services that understand or cater for the financial needs of rural businesses and community enterprises. Community banks, Rural Transaction Centres and Giro Post institutions do not cater for the specific needs of small business and community enterprise needs; nor do they attempt to understand what they are.<sup>52</sup>

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48 *Submission 109*, p. 27.

49 Department of Transport and Regional Services, *Submission 127*, p. 1.

50 *Submission 109*, p. 27.

51 *Submission 56*, p. 1.

52 *Submission 80*, p. 2.

10.43 The Report in Chapter 3 described at length how the absence of a bank branch in a town creates difficulties for local businesses in the day-to-day management of cash flow but also limits their access to professional advice and to finance.<sup>53</sup>

### ***Strategies to expand services***

10.44 Of the RTCs that are established, the Department of Transport and Regional Services highlighted the importance of commitment to the program. It noted that community-driven solutions often rely on communities developing the necessary skills to deliver and manage financial services. It asserted that providing appropriate training and small business management skills to deliver effective banking services can be time consuming and involves a continuing commitment on the part of the community.

10.45 CUSCAL also noted the importance of sustaining the level of enthusiasm for and commitment to the centres. It suggested, however, that there was a lack of ongoing support services for RTCs once established.<sup>54</sup> Indeed, during its site visit to Blackbutt, the Committee was surprised to learn that no communication links had developed between the various RTCs, even with those operating in neighbouring districts. It would appear that no one has assumed responsibility for ensuring that operators and groups involved in the work of RTCs form a nationwide network of enterprises pursuing similar goals. At the moment there is no effective mechanism that brings RTCs together as a cohesive group.

10.46 A number of councils raised a related issue dealing with the level of communication and understanding that exists between the bureaucracy and those seeking assistance from the program. They indicated that departmental officers do not appreciate the uniqueness of communities, their specific needs and how the RTC program could assist them. Mr Clinton Weber, Rosalie Shire Council, told the Committee of difficulties the officers in Canberra had in comprehending the decentralised nature of the shire with its numerous small local towns with populations of between 200 and 300 people dotted throughout the district. He stated:

Our main problem was getting somebody to understand where we were coming from rather than them trying to explain to us where the program was coming from.<sup>55</sup>

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53 See Chapter 3, para. 3.51.

54 *Submission* 109, p. 26.

55 *Committee Hansard*, 22 May 2003, p. 455. He stated further ‘Rosalie has 13 individual small communities, and the program was aimed more at areas where there was a larger population in a more confined area...we had difficulty getting understanding in Canberra as to the number of townships that are outlined here—that some of them were only three or four kilometres away, with 200 or 300 people in each town, but that, when you get to the local politics, they are distinctly local, distinctly two different towns. That, as well as the understanding of the very decentralised nature of the place, was difficult to get across.’

10.47 The Nyirranggulung Mardruk Ngadberre Regional Council reported that progress to establish an RTC at Bulman in the Northern Territory had stalled because:

Bulman's remoteness makes it impossible to undertake the negotiation necessary to develop the agreements and commitments required to complete a business plan...

The negotiation process was intended to be aided by an RTC Field Officer. Whilst it may be true that our field officer was involved in negotiation with providers at the general level of convincing providers of the need to fully cost remote service provision, including lease of facilities, it seems that specific negotiations to get agreements on the Bulman site never took place.<sup>56</sup>

10.48 The Committee believes that the program could benefit greatly by having a strong communication network linking all RTCs. This would give those involved in the program a better appreciation of how RTCs operate in different areas, the types of arrangements others have entered into and the range of services they offer. For example the department was concerned about the disclosure of commissions and their disparity between individual centres especially in light of the lack of competition. It noted in its submission:

When entering into contractual arrangements with financial institutions communities should be aware of the typical arrangements in place in other communities. In terms of financial service providers in RTCs there is great variation in policies on commissions and retainers and the products offered differ. This has resulted in some disparity between RTCs. For example commissions can range between \$1.00 and \$1.60 per transaction.<sup>57</sup>

10.49 In the Committee's view, the RTC program should incorporate as part of its on-going support and development strategies a component dedicated to bringing RTCs together to share and gain valuable insight from each other's experience. Regular workshops would provide an ideal opportunity for those involved in RTCs to exchange ideas. The Committee envisages the Department of Transport and Regional Services as a catalyst in facilitating communication between RTCs. Through this type of involvement, the department would not only foster stronger links between RTCs but would enable its officers to gain a better understanding of the operation of RTCs in other areas and the various approaches taken to expand the businesses. With the assistance of those actually working in the RTCs, the department would be better placed to develop and implement measures to improve the operation of the scheme and to offer guidance to those contemplating establishing an RTC.

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56 Correspondence received as additional information, Nyirranggulung Mardruk Ngadberre Regional Council to Committee, 11 September 2003. This correspondence follows a submission by the Gulin Gulin & Weemol Community Aboriginal Council. Gulin Gulin is a member community for this region.

57 Department of Transport and Regional Services, *Submission 127*, p. 10.

## Recommendation 9

**The Committee recognises a need for those managing RTCs to be part of a more effective communication network so that they can benefit from each other's experience and provide valuable advice for those considering applying for assistance. The Committee recommends that the Department of Transport and Regional Services take a more active role in encouraging the development of stronger links between RTCs throughout Australia and between RTCs and departmental officers.**

10.50 In looking at matters such as the Government's role in assisting communities with the establishment of an RTC, the question arises about on-going support for the program. Some witnesses argued that the Government should remain an active partner in the RTC program and that its involvement should go beyond merely the establishment of an RTC. CUSCAL stated:

...whilst many of those RTCs are operating very effectively, there continues to be a need for a government program that oversees and coordinates some of those initiatives and assists those centres. It would be a tragedy if those communities that had fought to get services back to their area lost out because of the lack of a coherent strategy or a strategy that continues to be funded post mid-2004.<sup>58</sup>

10.51 The Committee is concerned about ensuring that the program not only retains momentum but explores new ways to expand and improve its operation. This matter raises the issue of funding the program not only to make certain that the gains already made are not lost but to determine whether extra funding is warranted.

### *Funding*

10.52 The same economic imperative applies to RTCs as to giroPost and community banks—they need to achieve a level of activity to ensure that the facility becomes commercially viable. Put bluntly, however, there are some localities that are not able to support an RTC. Mr McBride, Local Government Association of New South Wales concluded:

I think in some areas it was never realistic to expect them to be self-funding—maybe contributing significantly to their cost, but never fully self-funding.<sup>59</sup>

10.53 For example the Laverton Shire Council investigated the setting up of an RTC. It received a grant under the program to carry out a feasibility study but failed to establish that the enterprise would be commercially viable. The RTC service,

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58 *Committee Hansard*, 25 February 2003, p. 169.

59 *Committee Hansard*, 25 February 2003, p. 158.



therefore, has not proceeded because the proposed centre would not have been self-sufficient in the long term.<sup>60</sup>

10.54 The situation in very small communities, where the local economy cannot support even a basic banking facility, presents challenges for decision makers and questions the requirement for all RTCs to be self-funding. Indeed, some submissions saw increased funding as a means to further support the RTC program and advocated a less demanding approach to the requirement for a centre to be commercially viable.<sup>61</sup>

10.55 The Summerland Credit Union would like to see 'a further financial commitment to fund the establishment of a far greater number of Rural Transaction Centres, as was initially intended'.<sup>62</sup> The Rosalie Shire Council submitted that it may be necessary for the RTC program to finance any losses involved in operating this service, at least for a period up to five years, after which the level of assistance could be reviewed.<sup>63</sup>

10.56 In some cases, the local council has been prepared to subsidise an RTC. The Nanango Shire Council provides between \$8,000 and \$10,000 to the RTC at Blackbutt to keep it operational. When the National closed its doors in Blackbutt five years ago, it left the town of 800 people and a district of 2,000 without banking services. Councillor Lee explained:

...if we were to wave a wand tomorrow and the credit union in Blackbutt disappeared, there would be a terrific upheaval over it. You could not do it, because it is a community facility that is provided by the council and is expected by those people down there to be provided by local authority.<sup>64</sup>

10.57 In this case the local council has accepted responsibility for ensuring that the residents of Blackbutt have a banking service in their town. This situation poses the question about whether such an undertaking is the responsibility of local government. Mrs Zerbst felt that the council has a lot of other services to deliver and should not be the ones that have to provide financial services to a town.<sup>65</sup>

10.58 The Committee accepts that some areas may not qualify for assistance because they cannot establish a sound business case for an RTC. Clearly some councils, recognising this commercial reality, propose that funding under the RTC

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60 *Submission 31*, p. 1.

61 The East Gippsland Shire Council recommended that the Federal Government provide through the RTC Program incentives to rural Councils to enter into agency arrangements with banks *Submission 75*, pp. 3, 5.

62 The Summerland Credit Union Limited, *Submission 116*, p. [6].

63 *Submission 16*, p. 1.

64 *Committee Hansard*, 22 May 2003, p. 481.

65 *Committee Hansard*, 22 May 2003, p. 473.

program should be extended beyond the current guidelines. This issue of funding raises the question about subsidisation for communities unable to qualify for RTC funding on commercial grounds alone. The same issue arose in relation to the absence of giroPost in towns where the number of financial transactions simply could not support its installation.

10.59 Professor Ian Harper stated that he thought it was acceptable for government to support or subsidise programs such as RTCs but with qualifications. He told the Committee:

...it is entirely appropriate for the Australian government to be easing the community through this transition...my concern is that the motivation behind it is not to stop the advance of a tide which is simply unstoppable. By all means, provide tax breaks to regional areas and subsidies that are targeted. Provided they are competitive, they can seed this process. Sometimes all that is necessary is to publicise the opportunities.<sup>66</sup>

10.60 The Committee acknowledges the work that has been achieved through the RTC program and recognises that it has the potential to continue to make a valuable contribution to the provision of services to regional, rural and remote Australia. It fully supports on-going funding for the RTC program. Even so, the Committee believes that the program could benefit from a review of its operation.

## Conclusion

10.61 The Committee endorses the RTC program as an effective means of restoring services to towns. It also notes that an RTC is a means of providing services to a small community that may never have had such services.

10.62 The Committee witnessed the success of the RTC program when it looked at the contribution being made by the Electricity Credit Union and the Heritage Building Society in delivering banking services to small communities in South West Queensland. In both cases, the institutions had stepped in to fill the void left by the major banks which had either left the community without a bank presence or were withdrawing their services from the town. In both cases the community organisation had assistance from either the CreditCare or RTC program. The RTC at Port Broughton with assistance from the local council was also delivering banking services to a community in need of improved banking services.

10.63 An RTC can be a means of renewing confidence, promoting local enterprise, and providing a convenient and safe location for people to conduct their banking affairs with staff on hand to assist them in transacting business. This in turn may reverse the trend of declining services by attracting and retaining business in the town. The presence of an RTC, however, does not address all the problems experienced by a community that has lost or never had access to adequate basic services.

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66 *Committee Hansard*, 26 February 2003, p. 246.

10.64 While the Committee believes that such a scheme holds promise it is concerned about:

- its slow progress;
- the number of RTCs that do not provide banking and financial services;
- sustaining, even reinvigorating, the program to ensure that the progress made is built upon and not eroded;
- future funding.

10.65 In light of such concerns the Committee makes the following recommendation:

### **Recommendation 10**

**The Committee recommends that the Australian Government conduct a review of the RTC program and its future direction. The review would:**

- **identify ways to streamline the process of applying for funding and to better assist communities formulate a business case for an RTC;**
- **develop a program designed to produce a better and more effective communication network between individual RTCs;**
- **establish why many RTCs do not provide banking or financial services;**
- **examine the scope and formulate a better strategy for extending the services provided by the centres particularly the provision of banking and financial services;**
- **determine the adequacy of the level of funding, especially the requirement for on-going funding, to ensure that established centres maintain their momentum and that new centres can be established; and**
- **consider the value in subsidising RTCs in localities without access to banking services but which would have difficulty in becoming self sufficient.**

10.66 The drafting of this report was nearing completion when the Australian National Audit Office released its performance audit report, *The Administration of Telecommunications Grants*, which looked at a number of government programs including the RTC program. Among its key findings was that the Department of Transport and Regional Services did not translate the Government's program objectives for the RTC program into 'operational objectives that would have helped to establish an appropriate performance management framework to monitor the efficiency and effectiveness of program delivery'. It found failings in the initial planning process, in particular 'the absence of any mechanism for feeding information gained from the evaluation of individual projects into an evaluation of the efficiency and effectiveness of the programs.'

10.67 The audit report noted that the department is aware of many of the shortcomings with the administration of the RTC program and is working towards resolving them.

10.68 Although the audit report and this report cover some common ground and the department is taking action to evaluate and rectify a number of problems highlighted in the auditor's report, the Committee believes that it should nonetheless retain its recommendation for the Government to review the program. In doing so, the Committee wants to reinforce the message coming out of the auditor's report and the department's own evaluation that a serious review is needed and problems with the program must be addressed.

10.69 Furthermore, the Committee emphasises that any review of the program should place a clear emphasis on RTCs as providers of banking and financial services and be directed at enhancing this role not downgrading it

### **Recommendation 11**

**In light of the findings of the Auditor-General, Audit Report No. 12, 2003–4, *The Administration of Telecommunications Grants*, the Committee recommends that the Government make a public recommitment to the RTC program especially to enhancing its role as a provider of banking and financial services to areas without access to such services.**

10.70 Community banks, giroPost and the RTC program have demonstrated that small communities together with private enterprise and government assistance can work together to find solutions to providing their communities with access to banking and financial services. As noted in the report such joint ventures require the combination of a number of key factors—community drive, commitment and leadership, critical mass, a sympathetic and willing financial service provider and in some instances government subsidy. Even when these factors do come together, the provision of banking services may fall short of the community's needs and expectations.

10.71 Advances in technology offer some hope of improved banking and financial services. The following section of the report focuses on this aspect of banking services.

# CHAPTER 11

## AUTOMATIC TELLER MACHINES AND ELECTRONIC FUNDS TRANSFER AT POINT OF SALE TERMINAL

11.1 The report so far has concentrated on banking services provided over the counter. It now turns to self-service models and looks at this mode of banking to assess its adequacy as a substitute for full branch services. This chapter examines two forms of electronic banking, Automatic Teller Machines (ATMs) and Electronic Funds Transfer at Point of Sale (EFTPOS).

11.2 ATMs and EFTPOS terminals have mushroomed over the last decade. The number of ATMs in the economy has increased since 1990 by over 350 per cent from 4,636 to 21,603 and EFTPOS outlets by almost 2,700 per cent from 15,514 to 433,640 over the same period.

**Table 11.1—ATMs and EFTPOS terminals in Australia 1990–2002<sup>1</sup>**

Points of Access to the Australian Payments System		
	ATMs	EFTPOS terminals
June 1990	4 636	15 514
June 1991	4 956	22 752
June 1992	5 314	26 260
June 1993	5 483	30 486
June 1994	5 910	51 707
June 1995	6 422	88 082
June 1996	7 465	123 984
June 1997	8 670	177 766
June 1998	9 472	230 573
June 1999	10 089	278 238
June 2000	11 819	333 739
June 2001	13 289	375 883
June 2002	16 398	415 167
June 2003	21 603	433 640

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1 Reserve Bank of Australia, C05 Points of Access to the Australian Payments System, [http://www.rba.gov.au/Statistics/Bulletin/index.html#table\\_C](http://www.rba.gov.au/Statistics/Bulletin/index.html#table_C) (updated version, 9 July 2003); Australian Payments Clearing Association Limited, Number of ATMs and EFTPOS terminals, [http://www.apca.com.au/Public/apca01\\_live.nsf/All/B59D1DB6DBB94A256DB...](http://www.apca.com.au/Public/apca01_live.nsf/All/B59D1DB6DBB94A256DB...) (9 October 2003)

11.3 Concomitantly, the use of ATMs and EFTPOS by Australians has grown substantially. The Australian Payments Clearing Association (APCA) has compiled a table illustrating the increasing popularity of this mode of banking in Australia and overseas. Table 11.2 shows that in 1999 Australia had a higher number of EFTPOS terminals per head of population than any member of the Group of Ten (G10) nations. According to the RBA, Australia now has the highest rate of EFTPOS terminal penetration of all industrialised nations except New Zealand.<sup>2</sup> In the case of ATMs per head of population, Australia is about average compared with G10 countries.<sup>3</sup>

**Table 11.2—The number of EFTPOS terminals and ATMs in Australia and the G10 Nations<sup>4</sup>**

	EFTPOS terminals per million inhabitants		Cash dispensers and ATM terminals per million inhabitants		
	1995	1999		1995	1999
<b>Australia<sup>2</sup></b>	4684	13,998	<b>Australia</b>	372	532
<b>G10 nations<sup>3</sup></b>			<b>G10 nations</b>		
Belgium	7174	9767	Belgium	360	608
Canada	6448	13,278	Canada	600	874
France	9394	13,529	France	395	549
Germany	856	3658	Germany	436	562
Italy	2683	7542	Italy	378	523
Japan	200	na	Japan	1013	1143
Netherlands	4736	9186	Netherlands	378	423
Sweden	6160	9155	Sweden	267	291
Switzerland	3499	8602	Switzerland	532	655
UK	8647	11,765	UK	358	476
US	2010	8604	US	466	831
<b>Notes</b>					
1. APCA quarterly ATM/EFTPOS terminals statistics collection, June 2001.					
2. <i>Payment Systems in Australia</i> , June 1999, Bank for International Settlements.					
3. <i>Statistics on Payments in the Group of Ten Nations</i> , 1999, Bank for International Settlements.					

2 Reserve Bank of Australia, 'The Changing Australian Retail Payments Landscape', *Reserve Bank of Australia Bulletin*, July 2003, p. 4.

3 APCA, *Payments Monitor*, Fourth Quarter 2001.

4 APCA, *Payments Monitor*, Fourth Quarter 2001.

## Background—ATMs and EFTPOS

11.4 Without question, the number of points of access to a banking service has soared in the last few years due largely to the increasing popularity of electronic banking. While bank branch numbers are in decline the use of ATMs and EFTPOS terminals has risen dramatically. Many consumers are attracted by the ease and convenience of using ATMs and EFTPOS.<sup>5</sup>

11.5 ATMs are designed to process transfers between linked accounts, answer balance enquiries, generate statements that include transaction history and cash withdrawals. Although not all ATMs accept deposits, some perform advanced transactions such as cheque deposits and bill payments.

11.6 ATMs are located on the premises of ADIs and are also found as stand alone installations in clubs, hotels, retail outlets and businesses. Customers have ready access outside normal banking hours but not all are accessible 24 hours a day because the trading hours of the business outlet in which they are located may determine access. Authorisation is via a personal identification number (PIN) and access is unassisted. An ADI may own and operate an ATM or customers from one institution may have access to an ATM owned by a third party.

11.7 EFTPOS terminals are located at retail outlets which enables an authorised cardholder to purchase goods and services using either deposit or credit funds and may also withdraw cash using deposit funds. In order to conduct an EFTPOS transaction the cardholder's magnetic stripe card is swiped in an EFTPOS terminal. Cardholder authentication is by signature or PIN. Access is with the assistance of the retailer and is thus restricted to the operating hours of the particular retail outlet.<sup>6</sup>

11.8 There are also hand-held mobile EFTPOS terminals which can be used by trades people and independent business people while on the job.

## ATMs and EFTPOS—consumer benefits

11.9 The availability of an ATM or EFTPOS can make the transfer of payments safer and less costly.<sup>7</sup> They lessen the need for travel to bank premises, reduce the dangers of carrying cash to perform transactions or the need to hoard sums of money.

11.10 The submissions most in praise of EFTPOS were those from people in the outlying areas of Australia who appreciated the convenience in not having to make

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5 The growing popularity of ATMs and EFTPOS was discussed in chapter 2 under the headings, 'Technological developments' and 'Changes in consumer preferences', paragraphs 2.24– 2.39.

6 APRA, Form ARF 396.0: Points of Presence.

7 See for example, Report of the Human Rights and Equal Opportunity Commission on a reference from the Attorney-General, *Accessibility of electronic commerce and new service and information technologies for older Australians and people with a disability*, 31 March 2000, p. 9 of 35, [http://www.hreoc.gov.au/disability\\_rights/inquiries/ecom/ecomrep.htm](http://www.hreoc.gov.au/disability_rights/inquiries/ecom/ecomrep.htm) (31 October 2002).

long journeys to conduct a basic banking transaction. The Gulin Gulin & Weemol Community Council Aboriginal Corporation informed the Committee that previously, council had made a weekly run to Katherine for a cash payroll but due to the cost and seasonal problems it had abandoned this practice in favour of paying employees by EFTPOS. It stated ‘every employee now has a bank account, and is able to use their keycard to purchase goods at the store’.<sup>8</sup> Similarly, the Nauiyu Nambiyu Community Government Council noted that EFTPOS can overcome the problems of distance.<sup>9</sup>

11.11 According to the Laverton Council, most businesses in the town of Laverton operate with EFTPOS facilities. It informed the Committee that the larger percentage of the residents of the shire are aboriginal and many of these people have learnt to operate and purchase goods under the EFTPOS system.

11.12 In noting the proliferation of EFTPOS outlets, the Northern Areas Council observed that they had gone some way to negating the downside of rationalisation within the banking sector. It stated:

Accessing cash and purchasing goods electronically are now much easier although business banking and cash deposits can still be difficult in a town without a bank branch or agency.<sup>10</sup>

It suggested further that good EFTPOS facilities change the way most residents go about their business. It noted that there is less need to carry cash and customers tend to favour those businesses offering EFTPOS thereby putting ‘pressure’ on all businesses to participate in the program.<sup>11</sup> This form of electronic banking is also cheaper than over-the-counter transactions.

## **Fees and charges**

11.13 A number of studies agree that advances in information technology have reduced the cost of transmitting, processing and storing information which in turn has cut the costs of providing a range of financial services.<sup>12</sup>

11.14 Statistics reveal that the average fee levied across all electronic transactions is significantly less than that of paper-based transactions and over-the-counter services.

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8 *Submission 8*, p. 1. APRA, Form ARF 396.0: Points of Presence, also describes similar means of payments—Electronic Funds Transfer at Point of Banking (EFTPOB) and Credit Authorised Transfer (CAT)/CAT with Merchant Data CAPture (CAT/CAP).

9 *Submission 5*, p. 2.

10 *Submission 3*, p. 2.

11 *Submission 34*, p. 2.

12 See for example Christopher Kent and Guy Debelle, *Trends in the Australian Banking System: Implications for Financial System Stability and Monetary Policy*, Research Discussion Paper, Reserve Bank of Australia, March 1999, p. 9. Notes on Bank Fees in Australia, prepared for the information of members of the House of Representatives Standing Committee on Economics, Finance and Public Administration, May 2000.



The table below shows that over-the-counter transactions not only attract a higher fee than a transaction using an ATM or EFTPOS but that fees for paper-based transactions have increased substantially over the last decade.<sup>13</sup>

**Table 11.3—Deposit Account Transaction Charges of Major Banks** <sup>(a) 14</sup>

	1991	1995	1998	1999	2000	2001	2002
Deposit accounts:							
Account-Servicing (per month) <sup>(b)</sup>	0.00	2.00	3.50	3.75	3.75	3.75	5.25
Fees per excess transaction							
- Counter withdrawals	0.50	1.00	2.00	2.15	2.15	2.75	2.50
- Cheques	0.50	0.70	0.65	0.75	0.75	0.90	1.00
- Own bank's ATM	0.30	0.40	0.55	0.60	0.60	0.65	0.60
- Other bank's ATM	0.30	0.40	1.05	1.30	1.40	1.40	1.40
- EFTPOS	0.30	0.40	0.45	0.50	0.50	0.50	0.45
- Telephone	NA	NA	0.30	0.35	0.35	0.45	0.45
- Internet	NA	NA	0.20	0.30	0.30	0.25	0.25
Memo items:							
Number of free transactions (monthly) <sup>(c)</sup>	11	11	8	8	8	8	
Range of minimum balances required to waive account-servicing fees (\$)	0-500	300-500	500	500-2000	500-2000	2000	

- a) Average for four largest banks. Based on public information on selected, widely used accounts. As at June of each year.
- (b) Some banks offer rebates/waivers based on either the transaction account balance or the overall 'relationship' balance.
- (c) All accounts that charge a monthly account-servicing fee allow some fee-free transactions.

Sources: Cannex; RBA

## Drawbacks for consumers

11.15 ATMs and EFTPOS clearly answer the immediate and pressing needs of communities without ready access to basic banking services. They offer the

13 See also Tim Noonan, *Accessible E-Commerce in Australia*, A Discussion Paper about the Effects of Electronic Commerce Developments on People with Disabilities, p. 30 of 91 <http://www.softspeak.community.au/ecrep10.htm> (30 October 2002).

14 The Table is a compilation of figures taken from *Reserve Bank of Australia Bulletin*, June 1999, p. 3; July 2001, p. 3; and April 2003, p. 3. There is a discrepancy in the figure given for 2001 for fees on cheques with the 2001 figures recording a fee of \$1.00.

convenience of proximity and extended hours of service. They also lessen the need to travel to bank premises, reduce the hazard of carrying cash to perform transactions and, in the case of ATMs, provide additional information such as account statements. Nonetheless, evidence to this Committee suggests that some consumers are not benefiting fully from this technology.

11.16 The following section looks at some of the barriers that discourage the use of ATMs and EFTPOS in regional, rural and remote Australia which include:

- service not available due to costs involved in installing and maintaining equipment;
- limited range of services; and
- consumer resistance due to:
  - safety and security concerns and
  - competency and confidence in using the facilities.

### ***Distribution of ATMs and EFTPOS terminals***

11.17 Despite their sheer number, ATMs and EFTPOS terminals do not meet all the banking needs of country people. To start with some localities such as Nannup and the small town of Yacka do not have access to this technology. In regard to ATMs, the Lockhart Shire Council noted that ‘a principal concern is that none of the existing banks offer ATM facilities’.<sup>15</sup> Clearly, ATMs and EFTPOS are not commercially attractive ventures in some areas.

### ***Costs and security***

11.18 The costs involved in installing and servicing the equipment and low turnover are the main obstacles to installing an ATM or EFTPOS in small, particularly remote communities. The Gulin Gulin & Weemol Community Council Aboriginal Corporation explained that they had contacted Electronic Banking Solutions regarding installation of an ATM but noted that managing the cash flow for such a machine is beyond the immediate capacity of council or the shop enterprise. The costs of transporting cash are also significant.<sup>16</sup>

11.19 The Nauiyu Nambiyu Community also mentioned the reluctance of banks to provide ATMs especially in isolated districts because of the problems of security of the machine and the high costs of servicing the equipment.<sup>17</sup> Mr Weber from the Rosalie Shire Council pointed to the problem of servicing the equipment and noted

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15 *Submission 25*, p. 2.

16 *Submission 8*, p. 2.

17 *Submission 5*, p. 2.

that the ATM in Goombungee spends '90 per cent of its time with an "out of order" sign on it.'<sup>18</sup>

11.20 Mr Hugh Harley, Commonwealth Bank, cited the two main issues a bank considers when deciding whether to install an ATM—turnover and the costs involved in servicing the machine. In turning to the costs, he explained that ATMs have to be serviced on a regular basis and that servicing is often separate from the provision of other services.<sup>19</sup>

11.21 Similarly, the Swan Hill Rural City Council submitted that the 'costs of installing and maintaining EFTPOS facilities is not attractive for many smaller businesses in smaller towns'. It suggested that if these costs could be reduced, residents within these communities would have access to currently unavailable financial transaction services and their reliance on more traditional methods of payment such as cash and cheque, would be greatly reduced.<sup>20</sup>

11.22 In the opinion of some witnesses there should be, despite the commercial and logistical obstacles to installing and maintaining such facilities, ready access to ATMs and EFTPOS particularly in very remote areas of Australia. The Shire of Greenough asked that banking and financial institutions install more ATMs in rural and regional Western Australia. It went further to suggest that the installation of these ATMs should be a community service to many isolated communities.<sup>21</sup> Similarly, the Catholic Women's League (Tasmania) recommended that banks provide zero cost ATM facilities in all regional centres and country towns.<sup>22</sup> The Weddin Shire Council suggested that, because there is little chance of a bank installing an ATM in the smaller centres, a joint installation may well be economical.<sup>23</sup>

### ***Limited services***

11.23 Problems can arise even in towns that do have an ATM or EFTPOS facility. For the ease and convenience offered by ATMs and EFTPOS, they, however, provide only limited services involving cash withdrawals and deposits. There are also restrictions on their use such as thresholds on the amounts to be withdrawn and some do not accept deposits. ATMs do not help local businesses manage their cash flow nor in any way assist people in obtaining financial advice. EFTPOS also does not provide an account statement. This limitation has caused particular difficulties for Indigenous

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18 *Committee Hansard*, 22 May 2003, p. 465.

19 *Committee Hansard*, 25 February 2003, p. 130.

20 *Submission* 13, p. 2.

21 *Submission* 35, p. 1. The Swan Hill Rural City Council also suggested that there was merit in considering 'some form of assistance to business in the smaller communities to install and utilise EFTPos facilities within their establishment.' *Submission* 13, p. 2.

22 *Submission* 28, p. 1.

23 *Submission* 64, p. 1.

Australians living in the more remote areas of Australia and is examined in depth in chapter 15.

### ***Safety, security, competency and confidence***

11.24 Another concern about the use of ATMs and EFTPOS was the personal safety of the consumer and the integrity of the system. The matter of personal security has two aspects. As noted earlier ATMs and EFTPOS offer consumers the safety of not having to withdraw larger sums of cash. On the other hand, the Post Office Agents Association Ltd noted that concerns for security and lack of confidence or familiarity with the use of certain types of transactions contributes to consumer resistance to the use of new channels. It explained that customers can be happy using ATMs for withdrawals but not for making deposits. Elderly customers in particular are not always comfortable with ATMs and other electronic channels.<sup>24</sup> Easy and safe access to equipment has received particular close consideration in recent years.

### ***Physical access and industry standards***

11.25 In August 1999, aware of the growing place of modern technology in the delivery of services, the Attorney-General, the Hon. Daryl Williams MP, asked the Human Rights and Equal Opportunity Commission to *inter alia* examine the difficulties and restrictions faced by older Australians and those with a disability in achieving full and equal access to services utilising new technologies. The Commission was also to suggest minimum standards that should be met when introducing new technologies into service provision.

11.26 The report by the Commission drew attention to the inaccessibility of many ATMs and EFTPOS facilities to people with limited vision, manual dexterity difficulties or memory loss, or who are using a wheelchair as well as concerns for safety when using an ATM and security when using an EFTPOS facility.

11.27 Following the release of this report, the ABA worked closely with the financial services industry, technical experts, the Human Rights Commission and representatives from the disability and older Australian communities to develop standards. In April 2002, the Australian banking sector launched a set of industry standards designed to improve accessibility of electronic banking facilities for the elderly and those with a disability.<sup>25</sup> The commentary accompanying the standards acknowledged that 18.4 per cent of the Australian population can be categorised as

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24 *Submission 77*, p. 8.

25 See Australian Bankers' Association, Media Release, 'Launch of Industry Standards—important steps to help overcome the digital divide for people with disabilities and older Australians, 15 April 2002 and 'Credit where credit is due HREOC welcomes banking standards', Australian Bankers' Association, 15 April 2002, Association Article, [www.bankers.asn.au](http://www.bankers.asn.au) See also Australian Bankers' Association, *Australian Bankers' Association Industry Standard*, for ATMs, *Australian Bankers' Association Industry Standard*, for EFTPOS. Paul Budde Communication Pty Ltd., *Telecommunications and Information Highways, Australia—EFTPOS, ATMs. doc*, 2003.

having a disability with the proportion even higher for older people. It went on to state that while not necessarily defined as disabled, older people may have general reduced ability associated with age such as hidden disabilities including heart impairment, breathing difficulties and psychological dysfunction, such as stress which can make it difficult for them to cope with electronic banking services. It went on to state:

Problems that arise are mainly concerned with getting about, gaining access to buildings and transport, using products and equipment and carrying out the activities of daily life.<sup>26</sup>

11.28 The standards announced in April 2002 contain detailed descriptions on the design, installation and operation of electronic banking services to ensure they are more accessible. According to the Disability Discrimination Commissioner 'Talking ATMs to assist blind people; clearer, more consistent instructions on telephone transactions and operating features at a height accessible to people who use wheelchairs are examples of things covered by the standards'.<sup>27</sup>

11.29 Even though formulated to cater specifically to the needs of people with a disability, the implementation of the standards means that all consumers will benefit from equipment designed to make ATMs and EFTPOS easier and safer to use, more secure and more accessible. The Human Rights Commission commended the development of the standards and stated:

These standards reflect best practice and when implemented Australia will be well placed to become a world leader in the area of accessible e-commerce.<sup>28</sup>

The standards are voluntary and the Commission encouraged all financial institutions to move swiftly to implement them.

11.30 The Committee endorses the work being done by the banking industry to improve access to electronic banking and supports the Human Rights and Equal Opportunity Commission in urging the financial services sector to adopt and implement the standards promptly. The Committee emphasises here that one of the major problems in country Australia is the lack of options in conducting banking business. An ATM or EFTPOS may be the only banking facility available to people in the district. Because of this lack of choice and the other difficulties experienced by country people in carrying out basic banking activities, the Committee therefore makes the following recommendation.

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26 Australian Bankers' Association, *Australian Bankers' Association Industry Standard, for ATMs*, April 2002, p. 44.

27 Australian Bankers' Association, Media Release, 'Credit where credit is due HREOC welcomes banking standards', 15 April 2002.

28 Australian Human Rights and Equal Opportunity Commission, Media Release 'Credit where credit is due HREOC welcomes banking standards', 15 April 2002, [http://www.hreoc.gov.au/media\\_releases/2002/18\\_02html](http://www.hreoc.gov.au/media_releases/2002/18_02html) (26 April 2003.)

## Recommendation 12

**The Committee recommends that all ADIs place a high priority on introducing the industry standards governing ATMs and EFTPOS in the more remote areas of Australia.**

**The Committee further recommends that the ABA monitor and report on the progress made in implementing these standards in rural, regional and remote Australia.**

11.31 The Committee also takes note that some people are loath to use ATMs and EFTPOS because they lack the confidence to use this type of technology. The Committee believes that much of this reluctance can be overcome with careful planning and appropriate education. The Committee accepts that banking and financial service providers could do more to help people adjust to electronic banking and to better promote the new technologies. This matter also relates to telephone and internet banking and is discussed at length in chapter 13.

### *Foreign ATMs—fees and charges*

11.32 In October 2000, the Reserve Bank of Australia and the ACCC in a joint review of bank fees found that cardholders using another institution's ATM were, in many cases, paying 'substantially more' than the cost of the service, raising questions about competition in ATM charging.<sup>29</sup> Table 11.3 indicates that the situation remains much the same.

11.33 While the fees charged for the various forms of electronic banking are relatively inexpensive, the Committee notes the discrepancy between fees incurred for using an ATM of one's own bank compared to another bank's ATM. A number of submissions also noted the extra charges placed on foreign ATMs.<sup>30</sup> This situation is particularly relevant for people living in regional and remote Australia, where there are few banking alternatives. Thus, because of the limited range of service channels, they may have little choice but to use a foreign ATM where the fee may be well over double that for using their own bank's ATM.

11.34 Indeed, the Victorian Farmers Federation noted that many towns do not have ATMs established by all major banks which results in increased transaction fees for residents using other-institution ATMs.<sup>31</sup> It recommended that the benefits and costs of establishing no-fee or low-fee ATMs servicing all major banks in rural communities without access to similar services be explored.

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29 ATM Industry Steering Group, *Discussion Paper Direct Charging for 'Foreign' Automatic Teller Machine (ATM) Transactions in Australia*, 4 March 2003, p. 3 of 24.

30 New data collected by the Reserve Bank of Australia shows that 'foreign ATM transactions have increased significantly to more than 40 per cent of ATM cash withdrawals in 2002, up from around 30 per cent in 1999'. Reserve Bank of Australia, 'The Changing Australian Retail Payments Landscape; Reserve Bank of Australia Bulletin, July 2003, p. 7.

31 *Submission 104*, p. 8.

11.35 A recent paper released by the ATM Industry Steering Group (AISG) was designed to facilitate discussions around the options for reform of ATM interchange fee arrangements. In setting out its objectives for voluntary reform, the AISG identified eight key objectives to guide the reform process and consideration of charging models. While a number were concerned with promoting retail price competition, and competition amongst industry participants and service providers, it did not mention the particular circumstances in some regional, rural and remote areas where competition to supply ATMs is weak or non-existent.<sup>32</sup> The Committee does not believe that any reform to the ATM fee structure should result in increased fees for people living in country Australia. It would like to see the Study Group include in its considerations the matter of competition and the fees and charges incurred in using ATMs in regional, rural and remote Australia especially charges attached to foreign ATMs.

### **Recommendation 13**

**In turning to the matter of the additional costs imposed for using a foreign ATM, the Committee recommends that banks implement measures to minimise the penalties imposed on their customers living in areas where they have no choice but to use a foreign ATM.**

### **Recommendation 14**

**The Committee recommends that the ATM Industry Steering Group include in its considerations on the reform of ATM interchange fee arrangements the special circumstances of fees and charges associated with the use of foreign ATMs in rural, regional and remote Australia. The focus of the group would be on building into any proposed reform of the ATM fee structure safeguards that would ensure that people living in country towns and remote communities do not incur significantly higher fees or charges for using a foreign ATM and that an unreasonable or unwarranted differential in fees and charges between those in rural and remote areas and those in metropolitan areas does not develop.**

11.36 Having made this recommendation, the Committee nonetheless decided that further inquiry was necessary to highlight the importance of ensuring that those living in regional, rural and remote Australia reap the benefits of any proposed reform to the ATM fee structure. The Committee held a public hearing devoted to this matter and has produced a supplementary report.

11.37 The Committee acknowledges that banks have wisely adopted new technology and are promoting its use. It notes, however, that ADIs should remain cognizant of the limitations of the new technology and accept that electronic banking at the moment complements but does not substitute for the full range of banking services offered through the traditional bank branch.

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32 ATM Industry Steering Group, *Discussion Paper Direct Charging for 'Foreign' Automatic Teller Machine (ATM) Transactions in Australia*, 4 March 2003, p. 16 of 24.

11.38 The following chapter continues the Committee's examination of the role of modern technology in providing banking and financial services to country Australia.



# CHAPTER 12

## TELEPHONE AND INTERNET BANKING

### Computer and internet use in Australia

12.1 Various studies have found that advances in information technology have cut the cost of transmitting, processing and storing information. This has lowered the costs of providing a range of financial services and transformed the way in which these services are produced and delivered.<sup>1</sup>

12.2 This chapter looks at the growing use of the internet and telephone as a means of banking and its adequacy in providing banking and financial services to Australians in regional, rural and remote areas. It also discusses some of the impediments that discourage people from using this mode of banking.

12.3 The Internet is an interconnected web of networks that transfers information between computers or smaller networks of computers. This web connects independent computers, communications entities and information systems.<sup>2</sup> Internet traffic initially travels between a link from the customer to the Internet Service Provider (ISP). The connection between a customer and the ISP is dedicated and through dial-up.<sup>3</sup>

12.4 Australia is among the world's most enthusiastic users of high-technology products.<sup>4</sup> Dr Jennifer Curtin noted that in the last four years, Australians have increasingly taken up the use of the Internet, to the point where they are one of the highest user populations in the world, third after Sweden and the United States.<sup>5</sup>

### *Access to a computer*

12.5 The Australian Bureau of Statistics has conducted a major survey of household use of information technology which shows that the proportion of

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1 Christopher Kent and Guy Debelle, *Trends in the Australian Banking System: Implications for Financial System Stability and Monetary Policy*, Research Discussion Paper, Reserve Bank of Australia, March 1999. *Financial System Inquiry, Final Report*, March 1997, pp. 99–109.

2 Definition given in Gary Madden and Grant Coble-Neal, 'Internet Economics and Policy: An Australian Perspective', *The Economic Record*, vol. 78, no. 242, September 2002, pp. 343–357.

3 See Gary Madden and Grant Coble-Neal, 'Internet Economics and Policy: An Australian Perspective', *The Economic Record*, vol. 78, no. 242, September 2002, p. 345.

4 John Simon and Sharon Wardrop, 'Australian Use of Information Technology and its Contribution to Growth', Research Discussion Paper, 2002–02, January 2002, pp. 1–3; Australian Bureau of Statistics, *Household Use of Information Technology*, Catalogue No. 8146.0, Commonwealth of Australia, Canberra, May 2001, p. 3.

5 Dr Jennifer Curtin, 'A Digital Divide in Rural and Regional Australia,' Current Issues Brief 1, 2001–02, Department of the Parliamentary Library, 7 August 2001, p. 1.

Australian households with access to a computer at home has increased steadily from 44 per cent in 1998 to 47 per cent in 1999 and 53 per cent in 2000. By 2002, 61 per cent of Australian households had access to a computer.<sup>6</sup> The statistics also clearly indicate that rural communities are well behind the major cities in the acquisition and use of information technology.

**Table 12.1—Number and Proportion of Households with Access to a Home Computer in Metropolitan and Non-metropolitan Areas: 1998–2002**<sup>7</sup>

<i>Region</i>	Number of households					Proportion of all households				
	('000)					%				
	1998	1999	2000	2001	2002	1998	1999	2000	2001	2002
Metropolitan areas	r2 126	r2 302	r2 543	2 928	3 091	48	r51	r55	62	65
Ex-Metropolitan areas	r958	r1 035	r1 260	1 383	1 465	38	r40	48	52	54
<b>Total</b>	<b>r3 083</b>	<b>r3 337</b>	<b>r3 803</b>	<b>4 311</b>	<b>4 556</b>	<b>r44</b>	<b>r47</b>	<b>53</b>	<b>58</b>	<b>61</b>
r revised										

### *Access to the Internet*

12.6 In comparing table 12.1 and 12.2, the statistics show that the percentage of households with access to a computer is significantly higher than those with home internet access. In 2002, 61% of households had access to a home computer but only 46% had access to home internet. The overall pattern of internet access over recent years shows a steady upward trend from a low 16% of households in 1998 to 32% in 2000 and 46% in 2002.

12.7 Table 12.2<sup>8</sup> also shows that those in metropolitan areas are more likely to have access to the internet.<sup>9</sup>

6 Australian Bureau of Statistics, *Household Use of Information Technology*, 2001–02, Catalogue No. 8146.0, Canberra, September 2003, p. 5.

7 Statistics taken from Australian Bureau of Statistics, *Household Use of Information Technology*, 2001–02, Catalogue No. 8146.0, Canberra, September 2003, Table 2.1, p. 8. These figures differ slightly from statistics recorded in earlier series. For example the percentage figures given in the earlier series published in 2001 for the total proportion of all households with access to a home computer was 45 per cent for 1998 and 48 per cent for 1999.

8 Statistics taken from Australian Bureau of Statistics, *Household Use of Information Technology*, Catalogue No. 8146.0, Canberra, May 2001, p. 5.

**Table 12.2—Number and Proportion of Households with Home Internet Access in Metropolitan and Non-metropolitan Areas: 1998–2002<sup>10</sup>**

Region	Number of households (‘000)					Proportion of all households %				
	1998	1999	2000	2001	2002	1998	1999	2000	2001	2002
Metropolitan areas	r834	r1 151	r1 665	2 206	2 398	19	r25	r36	47	50
Ex-Metropolitan areas	r264	387	676	908	1 047	10	15	26	34	39
<b>Total</b>	<b>1 098</b>	<b>1 538</b>	<b>2 340</b>	<b>3 114</b>	<b>3 445</b>	<b>16</b>	<b>22</b>	<b>32</b>	<b>42</b>	<b>46</b>
r revised										

12.8 The difference in internet use between those in metropolitan areas and those in other areas hovers around 11 per cent. In 2002, 50 per cent of households in metropolitan areas had access to the internet compared with 39 per cent in non-metropolitan regions.

12.9 Dr Bruce Swanson suggested that this difference would probably be magnified if broken down further into major regional centres and smaller rural towns. He was of the view that ‘rural Australia is not well situated in terms of skills or infrastructure to compete with the urban workforce for the new ‘location independent’ industries or to fully realise the potential benefits of IT to its own industries’.<sup>11</sup>

12.10 This view accords with the experiences of those living in country Australia. The Goulburn Shire Council was of the opinion that ‘the uptake of online new technology is lower in rural and regional communities and within certain demographic categories’. For example, it attributed the apparent lower number of personal computers and access to the Internet in rural and regional areas in part to differentials in disposable income levels.<sup>12</sup>

9 Australian Bureau of Statistics, *Household Use of Information Technology*, Catalogue No. 8146.0, Canberra, May 2001.

10 Statistics taken from Australian Bureau of Statistics, *Household Use of Information Technology*, 2001–02, Catalogue No. 8146.0, Canberra, September 2003, Table 2.2, p. 9.

11 Dr Bruce Swanson, ‘Information Technology and Under-Served Communities’, [http://www.telehealth.org/au/discussion\\_papers/info\\_tech.html](http://www.telehealth.org/au/discussion_papers/info_tech.html) (29 October 2002).

12 *Submission 41*, p. 1.

12.11 Recent data produced by the ABS shows that the rise in the number of households with access to the internet has been accompanied by an increase in the number of Australians using the Internet to pay bills or transfer funds.

**Table 12.3—Persons who use the Internet to pay bills or transfer funds: 2001–2002<sup>13</sup>**

Internet transaction—Paid bills or transferred funds via the Internet (a)				
Region	1999	2000	2001	2002
	%	%	%	%
Metropolitan areas	3	11	19	26
Ex-Metropolitan areas	2	6	12	18
Total	3	9	17	23

(a) Percentages are of all persons aged 18 years and over.

12.12 A notable feature of the above table when compared to table 12.2 is the significant difference between those who have access to the internet and those who use the internet to pay bills or transfer funds. For instance, in 2002, 39% of households in non-metropolitan areas had access to the internet but only 18% of Australian adults in these areas were using the internet to pay bills or transfer funds.

### **The growing use of the internet and telephone for banking purposes**

12.13 Statistics available on telephone banking also show a steady increase in its use. The ABS found that in any one quarter in 1998:

- 1% of adults had used the internet for banking or bill paying purposes;
- 35% had used the telephone to pay bills or conduct their banking.<sup>14</sup>
- 61% had used EFTPOS; and
- nearly 69% of adults had used an ATM for banking purposes;

12.14 The following table shows the steady and substantial growth in the use of these four channels to pay bills or transfer funds since 1998.

<sup>13</sup> Statistics taken from Australian Bureau of Statistics, *Household Use of Information Technology*, Catalogue No. 8146.0, Canberra, 6 June 2000, p. 18; 8 May 2001, p. 19; and 10 September 2003, pp. 38 and 39.

<sup>14</sup> Australian Bureau of Statistics, *Household Use of Information Technology*, Catalogue No. 8146.0, Canberra, May 1999, p. 8.

**Table 12.4—Payment of bills or transfer of funds using internet, telephone, EFTPOS and ATM<sup>15</sup>**

Adults Undertaking Internet and Selected Electronic Transactions								
	Paid Bills or transferred funds via the internet		Paid Bills or transferred funds via phone		Paid Bills or transferred funds via EFTPOS		Transferred or withdrew funds via ATM	
	1999 %	2000 %	1999 %	2000 %	1999 %	2000 %	1999 %	2000 %
Metropolitan area	3	11	44	51	64	66	73	75
Other areas	2	6	32	47	60	67	68	71
Total	3	9	40	50	63	66	71	74

12.15 A recent telephone survey produced interesting figures for telephone and internet banking. It showed that:

- 68% of respondents indicated that they use or know how to use telephone banking but only 36% use it;
- 52% indicated that they use or know how the use internet banking but only 28% use it.<sup>16</sup>

12.16 Although different from the figures produced by the ABS, they show a marked difference between people saying they know how to use the technology and those actually using it.

12.17 Mr Malcolm Rodgers, Executive Director, Policy and Markets Regulation, ASIC, at a recent seminar on capital markets, observed that:

Of the many predictions that have failed, one of the best examples is that traditional banks are dinosaurs that the internet will drive into extinction. The reality is very different...the current wisdom is that the combination of internet delivery channel with focused bank branches ('clicks and mortar approach') will prevail, at least in the medium term. There is now increasing recognition that, as public trust is so crucial to banking, an established brand

15 Table compiled from two sources—Australian Bureau of Statistics, *Household Use of Information Technology*, Catalogue No. 8146.6, Canberra, June 2000, p. 18 and 8 May 2001, p.19.

16 *ANZ Survey of Adult Financial Literacy in Australia*, Stage 2: Telephone Survey Report, April 2003, Prepared by Roy Morgan Research, Melbourne, pp. 51, 68 and 74 and *ANZ Survey of Adult Financial Literacy in Australia*, Final Report, May 2003, prepared by Roy Morgan, Melbourne, p. 30.

name is important and many customers wish to be able to do some banking physically. It is the market incumbents that seem to have succeeded in making the most of the opportunities presented by the e-finance revolution.<sup>17</sup>

12.18 Even so, the rate in the number of people using the internet to conduct banking business continues to rise. In the 12 months to March 2002, the number of Internet bank users grew by 88 per cent to over five million. The biggest driver is the age group of 50+, which recorded a 113 per cent increase in registrations.<sup>18</sup>

### **Small business and electronic banking**

12.19 Small businesses are becoming major users of Internet banking. According to the ABA, in the period from June 1998 to June 2000, Internet access by small business increased 105 per cent (from 28 to 57.5 per cent). Banking is the most popular on-line activity for Australian businesses, with 37 per cent of small businesses using the Internet to undertake a banking transaction of some kind.<sup>19</sup>

12.20 In country Australia, businesses are beginning to appreciate the benefits of using the internet. The Laverton Shire Council stated that 'quite a few local businesses now operate their businesses using electronic/telephone banking services'.<sup>20</sup> The Nauiyu Nambiyu Community Government Council noted that from a commercial aspect, modern on-line abilities have allowed Council banking transactions to continue without undue problems.<sup>21</sup>

### **Farmers and electronic banking**

12.21 Internet use by Australian farmers is among the highest in the world. This usage is largely for business purposes, mainly in the area of information gathering. Other areas such as electronic commerce, Internet banking and education and training are poised to grow substantially.<sup>22</sup> An Australian Bureau of Statistics Survey on 'Use of Internet Technology on Farms' revealed that in June 2000, 34 per cent of farmers were using the Internet, up from 18 per cent in March 1999.

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17 Malcolm Rodgers, *E-finance: trends and regulatory responses*, Monetary Authority of Singapore Capital Markets Seminar, ASIC, May 2002, p. 4.

18 *Submission 117*, p. 4. See also Tim O'Leary, National Australia Bank, *Committee Hansard*, February 2003, p. 317.

19 *Submission 117*, p. 5.

20 *Submission 31*, p. 1.

21 *Submission 5*, p. 1.

22 Catherine O'Connor, 'How your town can use the Internet', The Regional Institute Ltd, First National Conference on the Future of Australia's Country Towns, p. 1 and 2 of 4.  
<http://www.regional.org.au/au/countrytowns/ideas/oconnor.htm> (1 October 2002);  
[http://pandora.nla.gov.au/pan/13170/200010711/www.hreoc.gov.au/speeches/humanrights/hr\\_older\\_au\\_bush.html](http://pandora.nla.gov.au/pan/13170/200010711/www.hreoc.gov.au/speeches/humanrights/hr_older_au_bush.html) (29 October 2002,)

12.22 Evidence presented by a number of local councils adds to the general impression that farmers are taking advantage of the benefits offered by the new technology. The Lockhart Shire Council noted that there appears to be an increasing willingness in the farming community to embrace computer technology and to use the Internet for banking.<sup>23</sup> According to the ABA, this trend is not surprising as most farmers run 'efficient and professional businesses and are equipped with computers and other innovative information technology'.<sup>24</sup>

## **Overall trend in the use of electronic banking in country Australia**

12.23 The trend over recent years indicates that electronic banking has become an accepted mode of transacting banking business and will continue to grow in popularity. Despite the increasing number of people in country Australia adopting internet and telephone banking, especially farmers, the statistics show, as noted earlier, that people in regional Australia have not embraced electronic banking to the same extent as those in metropolitan areas. The following section examines some of the major barriers to access to electronic banking in regional, rural and remote Australia. In particular, it looks at a number of recent studies that have focused on the telecommunications industry in country Australia. It uses these studies to compare their findings against the evidence presented to this Committee.

## **Provision of telecommunications services in country Australia**

12.24 The Regional Telecommunications Inquiry and submissions to that inquiry provide a rich source of information on the provision of telecommunication services to country Australia. The Committee draws on this material as a starting point for the report's discussion on various aspects of the telecommunication industry and the delivery of banking and financial services in regional, rural and remote Australia.

12.25 A number of submissions to the Regional Telecommunications Inquiry acknowledged the contribution that advances in telecommunications could make to improving the quality of life in the country. The Online Access Centre Association of Tasmania stated:

With the increasing trend to transact business online and access information and services online and the increased withdrawal of face-to-face services in local communities, access to the Internet is a vital part of life for rural and regional communities. The trend towards online delivery is accelerating and therefore access to the Internet will not merely be more important but essential for the survival of local communities.<sup>25</sup>

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23 *Submission 25*, p. 2.

24 *Submission 117*, p. 5.

25 The Online Access Centre Association of Tasmania submission to the Regional Telecommunications Inquiry.

12.26 Similar views were presented to this Committee in regard to banking services. Many submissions recognised the benefits that modern technology delivers. They understand that electronic banking is an important feature of the banking environment in 2003 and appreciate the need for country people to be beneficiaries of technological progress.<sup>26</sup> The Tamworth City Council noted that:

Advances in information technology have changed the traditional banking structure. Individuals in rural communities are becoming familiar with, and accepting of, operating outside the banking system which operated in the latter part of the 20th century.<sup>27</sup>

12.27 Without doubt many benefits come with the use of electronic banking. Consumer behaviour and the enthusiasm with which people have adopted this method of banking stands as incontrovertible evidence of the popularity of electronic banking. The convenience, ease of access, and lower transaction costs attract more and more consumers. They now enjoy access outside normal banking hours and have no need to leave their home or place of business to obtain information and carry out transactions.

12.28 Not all Australians, however, are able to take advantage of the new technology and the technology itself has limitations in delivering banking services to regional, rural and remote Australia. The following section looks at the access that people in regional, rural and remote areas have to internet and telephone banking.

### ***Overall accessibility to electronic banking***

12.29 The NFF asserted that with the availability of technology and banking alternatives, there should be nothing preventing people in regional and remote Australia from having access to the same quality of service.<sup>28</sup> Indeed, an expression that has gained currency is that electronic banking overcomes the ‘Tyranny of Distance’.<sup>29</sup> As noted earlier, however, statistics show that non-metropolitan areas are lagging behind those in larger areas in the use of the internet and to a lesser extent telephone banking.

12.30 Numerous submissions have identified a range of obstacles that discourage the use of electronic banking.<sup>30</sup> The following section outlines the main issues raised in evidence about the difficulties experienced by people in country Australia in gaining access to electronic banking. It looks at:

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26 *Submission* 109, p. 22.

27 *Submission* 93, p. 3.

28 *Committee Hansard*, 14 November 2002, p. 45.

29 See for example, Robert Parker and Franco Papandrea, *The Rural and Regional Guide to E-Commerce*, the Rural Industries Research and Development Corporation, Canberra, May 2002, p. xiii and Catherine O’Connor, ‘How your town can use the Internet’, First National Conference on the Future of Australia’s Country Towns, <http://www.regional.org.au/au/countrytowns/ideas/oconnor.htm> p. 1, (11 February 2003).

30 See Redland Shire Council, *Submission* 89, p. 2 and footnote 31 and 34 below.



- the adequacy of the existing telecommunications infrastructure—its availability, reliability and capability in delivering a satisfactory level of service;
- affordability of the new technology; and
- consumers' confidence in and ability to use the technology.<sup>31</sup>

### ***Inadequate infrastructure***

12.31 The growth and development of telephone and internet banking depends on its supporting infrastructure which includes the connection, repair and reliability of basic telephone services, coverage of affordable mobile phone services, and ready and reliable access to the Internet. Recent studies have shown that the key concerns about the delivery of telecommunication services relate more to rural and remote areas than regional centres.<sup>32</sup>

12.32 While many submissions to the Regional Telecommunications Inquiry acknowledged the progress made in extending and improving the quality of telecommunications services in country Australia, they recognised that there is still much scope for improvement especially in the more remote areas.<sup>33</sup> The submissions mentioned the unreliability of the Internet service and cited very slow speeds for data retrieval and services often dropping out as a constant source of irritation for country users.<sup>34</sup> Overall, the Regional Telecommunications Inquiry found that:

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31 For example, the Department of Agriculture, Fisheries and Forestry, recognised that critical limitations to the efficient uptake of new methods of service delivery include inadequate levels of infrastructure in some areas of non-urban Australia that affect the supply of technology-based services; attitudinal and cultural prejudices against change and an unwillingness to adopt new ways of conducting banking and financial service transactions. *Submission 105*, p. 17. The Goulburn Shire Council stated that electronic options are not always available or reliable. *Submission 41*, p. 1.

32 Department of Communications, Information Technology and the Arts, *Connecting regional Australia*; The Report of the Regional Telecommunications Inquiry, Canberra, November 2002, p. 1.

33 See for example the Western Division Group of the Shires Association of NSW which stated that 'communities have some way to go yet in remote areas to be comparable with metropolitan Australia' and the Warren-Blackwood Economic Alliance which stated succinctly: 'Any improvement of service has been partial which renders the rural and regional communities continuing to lag behind the cities re performance and quality of service'. See also the following submissions to the Regional Telecommunications Inquiry: the Northern Regional Development Board, the Online Access Centre Association of Tasmania, the Outback Areas Community Development Trust and the South West Development Commission.

34 See for example, the Local Government Association of Tasmania which submitted, 'Many businesses reliant on Internet services report very slow speeds for data retrieval and often services drop out altogether. Many farmers throughout the State are significant users of the Internet for their business operations. Indeed as a sector of industry, they are one of the highest users. However, reliability is cited as a constant frustration and while broadband services are not their key requirement 'broader' band offering greater reliability and speed certainly is'. The Local Government Association of Tasmania submission to the Regional Telecommunications Inquiry. The Western Australian Farmers Federation maintained that 'the timely installation,

- there are particular areas in rural Australia where improvements need to be made to network reliability;
- the Internet Assistance Program has benefited those who have accessed it, but it needs to be more widely promoted, and benefits should be guaranteed into the future for all Australians through a licence condition on Telstra;
- continuing Government support and action will be required to resolve fully some concerns, such as improving service levels in remote Indigenous communities;
- a number of further modifications to existing programs and arrangements are recommended, including in relation to ensuring the upgrade of radio concentrator systems in remote areas, and addressing the issue of poorly performing pair gain systems.<sup>35</sup>

12.33 Although less technical in detail and focused on banking services, the submissions to this inquiry replicate much of the evidence before the Regional Telecommunications Inquiry.<sup>36</sup> They reinforced the message that although solid work has been done to telecommunication infrastructure to improve access to services, there remains much room for improvement.<sup>37</sup>

12.34 Even though many witnesses could see the advances being made in technology they feared being left behind. Mr Francis, City of Ballarat, told the Committee:

It is no good having banking online if you do not have a usable phone line. If you talk to small rural councils like Yarriambiack in the north of the state, you will find that is the crisis they face. You talk about the information highway and they are on the information dirt road.<sup>38</sup>

12.35 In conveying a general dissatisfaction with the quality of service, and consistent with the views put to the Regional Telecommunications Inquiry, submissions cited difficulties such as slow speeds and line drop outs. Rather than

repair and reliability of basic telephone services in regional, rural and remote Australia is still perceived to be below an acceptable standard by the people in these areas'. Moreover that 'reliable access to the Internet is just not happening'.

35 Department of Communications, Information Technology and the Arts, *Connecting regional Australia*; The report of the Regional Telecommunications Inquiry, Canberra, November 2002, p. 3.

36 See for example, Brian Goodfellow, Elders Rural Bank, *Committee Hansard*, 12 March 2003, p. 369. He identified line speed as a particular problem which he claimed was 'driven by the sheer geographical locations. If you look at Western Australia, in the south west, that is not necessarily an issue, but if you look into the far-reaching areas of the Northern Territory and Western Australia, reception availability does vary considerably.'

37 See the Swan Hill Rural City Council, *Submission 13*, p. 1. The Post Office Agents Association Ltd agreed that, 'There is yet to be universal access of sufficient quality to Internet services in rural and remote locations', *Submission 77*, p. 8.

38 *Committee Hansard*, 26 February 2003, p. 275.

recite the long list of matters raised in submissions, the following examples provide a fair representation of the complaints presented to the Committee. The Shire of Dandaragan was just one of many drawing attention to the need to improve internet access. It stated:

In many parts of rural Western Australia there are limitations on internet facilities, costs too high or problems with delivery.

Some banks also have limitations on what can be undertaken by telephone banking so if country people do not have a good internet access and their bank has limited telephone banking facilities they are disadvantaged.<sup>39</sup>

12.36 The Corowa Shire Council also expressed frustration at the limitations imposed by the telecommunication system. It stated that ‘we see ever increasing use of electronic means to access banks and particularly in our rural areas there is a need to upgrade the speed of Internet access to banking’<sup>40</sup>

12.37 To the same effect, the District Council of Grant, the Nanango Shire Council, the City of Ballarat, the District Council of Robe, the Victorian Farmers Federation, the Gunning Shire Council and the Gulin Gulin & Weemol Community Council Aboriginal Corporation submitted that telephone services and Internet services could be improved in their respective areas.<sup>41</sup>

### **Broadband**

12.38 A major problem with meeting the challenge of providing country Australia with adequate access to modern technology is not simply a case of catching up with metropolitan areas but also of staying in touch with international developments.

12.39 The Summerland Credit Union Limited asked for the continued commitment from Telstra and the Federal Government to improve data transmission technology, allowing financial institutions greater flexibility and reliability when delivering electronic products.<sup>42</sup> This observation carries greater weight when the speed of technological advances is considered. Continuing change means that to be at the forefront of such progress, Australia cannot relax its endeavours to keep pace with international developments. The roll out of the broadband market in Australia is the next major challenge.

12.40 Broadband provides data or Internet download at speeds significantly greater than that available from the standard PSTN telephone line connection. Broadband services are expected to produce significant efficiencies and economic and social

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39 *Submission 125*, p. 1.

40 *Submission 33*, pp. 1, 2.

41 *Submission 4*, p. 1; *Submission 10*, p. 1; *Submission 104*, p. 6; *Submission 56*, p. 2 and *Submission 8*, p. 2.

42 *Submission 116*, p. 6.

benefits across the community. The Broadband Advisory Group described broadband as:

...the ability of a single access line or wireless or satellite link, connected to a telecommunications network, to provide support for fast, always-on access to digital content, applications and a range of services, some or all of which can occur simultaneously.<sup>43</sup>

12.41 According to its findings, Australia was slow to start with this technology but is now beginning to embrace it. OECD research indicates that in December 2001 Australia was ranked 18<sup>th</sup> in broadband penetration out of 30 OECD countries.<sup>44</sup>

12.42 In some regions Telstra lines, especially the copper variety, do not always lend themselves to the latest electronics technology. The Local Government of Tasmania told the Regional Telecommunications Inquiry that 'old and tired infrastructure proves unreliable and detrimentally effects data speeds'. The majority of Tasmania's rural areas are still served by the copper line system. It asked 'how do regional areas attract new e-businesses if the infrastructure does not equate with standards provided in urban areas?' The Wheatbelt Development Commission also noted that the poor capacity of copper lines running onto farming properties is a persistent issue within the Wheatbelt region.<sup>45</sup>

12.43 The Committee notes that in December 2000, the Regional Australia Summit Steering Committee suggested that the Federal Government may wish 'to focus on the

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43 Broadband Advisory Group, *Australia's Broadband Connectivity*, The Broadband Advisory Group's Report to Government, National Office for the Information Economy, Commonwealth of Australia, Canberra, 2003, p. 12.

44 Broadband Advisory Group, *Australia's Broadband Connectivity*, The Broadband Advisory Group's Report to Government, National Office for the Information Economy, Commonwealth of Australia, Canberra, 2003, p. 12. It cited data from the ACCC that shows there was 'a 162 per cent increase in broadband take-up in Australia between 31 July 2001 and 30 September 2002. Over the same period the number of business customers increased by 333 per cent (now 71,500) and the number of residential customers increased by 97 per cent (now 204,900). Significantly, there was a 23 per cent increase in take-up in the June to September 2002 quarter.'

45 Wheatbelt Development Commission submission to the Regional Telecommunications Inquiry. It stated: 'these old lines do not allow for 'normal' data speed with most being below 28.8kps (and possibly closer to 14.4kps). Most of these farms are outside the range of ADSL or ISDN and therefore the option being suggested to them by service providers is to use satellite technology. There is no doubt that this technology is available and allows high band wide for data community. However, the cost of satellite technology places its viability beyond the reach of most farmers that require greater bandwidth. There needs to be more options made available to farmers that are cost effective and deliver high bandwidth'. The Local Government of Tasmania expressed similar views. It stated: 'Telstra advertises the benefits of their national broadband services, however, it is only available to many of Tasmania's regional areas via satellite (ie residents/businesses must install their own satellite dish). Given the excessive costs associated with not only the set up in addition to the download costs, it is extremely doubtful that the local businesses or industries within these municipalities could effectively utilize the service.'

use of innovative solutions to overcome the limitations of the copper wire telephone network in a vast continent such as ours'.<sup>46</sup> It went further:

The telecommunication needs of all Australians in the 21<sup>st</sup> century will go well beyond the basic telephone service and the approaches to service delivery also need to reflect this complex environment.<sup>47</sup>

12.44 The same concerns about access to new infrastructure were related to the Committee. The East Gippsland Shire Council noted that 'Broadband capabilities are generally not available and satellite services (both capital and operational) are expensive'.<sup>48</sup> The Winton Shire Council noted that telephone banking and Internet banking/shopping are growing at the expense of traditional banking but that remote communities such as theirs are the last recipient of technology advances. It went on to state that more importantly, 'many properties do not even have mains power supplies and therefore have not the same equity of access to technology advances'.<sup>49</sup>

12.45 In summing up the general level of dissatisfaction with the telecommunications infrastructure to country Australia, the Shire of Chapman Valley made clear that electronic banking as it now stands is not an acceptable substitute for the traditional methods of banking. It submitted:

The distinct disadvantage that rural and remote areas of Australia have in regards to using internet and office banking services is the poor quality communications provided to these areas of Australia, therefore making such services a totally inefficient and ineffective method of banking and one which would never replace the branch banking facilities until such communication facilities are improved.<sup>50</sup>

12.46 A number of submissions to recent inquiries gave particular attention to the question of equity in access to telecommunications services for country Australia.<sup>51</sup> The Broadband Advisory Group recommended that Broadband should be available to all Australians at fair and reasonable prices. The NFF supported this view. It believed

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46 *Regional Australia Summit: Final Report of the Regional Australia Summit Steering Committee*, December 2000, p. 23.

47 *Regional Australia Summit: Final Report of the Regional Australia Summit Steering Committee*, December 2000, p. 23.

48 *Submission 75*, p. 4.

49 *Submission 27*, p. 2. It noted further that a recent scheme had provided satellite Internet service at excellent subsidies to some properties with radio-telephony. This facility, however, was not made available across the board to everyone restricted by DRCS/HCRC radio telephone connections. It stated there is no way that people with this level of connection can have any sort of reasonable Internet connection for financial services. See also Mayor Strohfeld, *Committee Hansard*, 22 May 2003, p. 470; Mr Richard Brittain, *Committee Hansard*, 22 May 2003, p. 474.

50 *Submission 24*, p. 1.

51 See for example, the Local Government Association of South Australia submission to the Regional Telecommunications Inquiry.

that the ability to use Internet banking should be the same for somebody at Mount Isa as for somebody in Sydney.<sup>52</sup> There is, however, a general recognition that some areas of Australia will not receive services through market forces.<sup>53</sup> The Broadband Advisory Group recommended that the Government identify areas that are unlikely to receive services on a commercial basis at fair and reasonable prices within an acceptable timeframe.<sup>54</sup>

12.47 The Regional Telecommunications Inquiry noted:

The reality is that in telecommunications factors such as geographic isolation, the high cost of delivery in some areas, limitations of particular technologies and lack of commercial viability in some areas, mean that not all consumers across the country can expect access to exactly the same suite of services, at exactly the same price, and in exactly the same time frames.<sup>55</sup>

12.48 It recognised the need to allocate funding to subsidise commercially unprofitable services and concluded that:

...funding responsibility should rest primarily with Government, rather than industry. It is appropriate for Government to directly fund its social and economic telecommunications policy objectives, as it does other policy priorities.<sup>56</sup>

12.49 The Committee acknowledges that great advances have been made to improve communication infrastructure in rural and regional Australia but that more needs to be done. Further it recognises that there are areas particularly in remote Australia that present challenges for telecommunication service providers in providing adequate access to telecommunication infrastructure on a commercially viable basis.

12.50 The Committee accepts that areas difficult to service may need government intervention to ensure adequate and affordable access to telecommunication services. It is beyond the scope of this inquiry to suggest the nature and extent of this intervention but notes the findings of the Regional Telecommunications Inquiry. It agrees with the view that any such assistance should be targeted and nationally co-ordinated. The Committee, however, is firm in its view that the Government in considering the provision of telecommunication services to regional, rural and remote

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52 *Committee Hansard*, 14 November 2002, p. 45.

53 Broadband Advisory Group, *Australia's Broadband Connectivity*, The Broadband Advisory Group's Report to Government, National Office for the Information Economy, Commonwealth of Australia Canberra, 2003, p. 23.

54 *ibid.*, p. 23.

55 Department of Communications, Information Technology and the Arts, *Connecting regional Australia*; The report of the Regional Telecommunications Inquiry, Canberra, November 2002, p. 30.

56 *ibid.*, pp. 249–50. The Inquiry recommended that the Government should provide funding for future service improvements in regional, rural and remote Australia, rather than imposing financial obligations on industry.

Australia keep foremost in its mind the crucial role that this service now has in delivering banking and financial services to people throughout country Australia.

### **Recommendation 15**

**The Committee recommends that any initiatives to develop or improve information technology and telecommunications infrastructure in regional, rural and remote Australia take account of the banking needs of those living in country Australia and are implemented to support and enhance the provision of such services.**

#### *Affordability*

12.51 The extension and upgrading of infrastructure to remote areas is not, however, the only factor influencing accessibility—affordability is also an important consideration.<sup>57</sup> As mentioned by a number of participants to this inquiry, the cost of the service is also a disincentive for people to use broadband. The Macedon Ranges Shire Council asserted that in rural areas such as theirs ‘telecommunications infrastructure is of poor quality and often expensive and slow to access’.<sup>58</sup> The Hindmarsh Shire Council noted that in many areas the lack of affordable access to bandwidth, also frustrates attempts at ‘on line banking’.<sup>59</sup>

12.52 The Victorian Farmers Federation maintained that many people in rural Victoria do not find internet banking a suitable alternative to over-the-counter services due not only to infrastructure difficulties but also the cost of long-distance calls and IT infrastructure such as computer equipment and installation of home satellite receivers.<sup>60</sup>

12.53 Fees charged for an electronic banking transaction are lower than those for over-the-counter transactions (see Table 11.3). They do not act as an impediment for consumers rather they are an inducement to use this form of banking. Although the fees charged for an Internet transaction are low relative to charges for other means of transacting, the initial outlay and ongoing costs of maintaining the necessary apparatus

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57 The Local Government Association of South Australia identified problems applying specifically to country areas that included: the lack of broadband availability—no small scale installation packages (ADSL); price and the lack of entry level product packaging; last mile infrastructure limitations; and a lack of incentive for the industry to develop broadband delivery solutions for low or non-profit situations. See the Local Government Association of South Australia submission to the Regional Telecommunications Inquiry and also submissions from the Local Government Association of Tasmania, Northern Regional Development Board; Online Access Centre Association of Tasmania; OutBack Areas Community Development Trust; South west Development Commission; The Warren-Blackwood Economic Alliance; the Western Australian Farmers Federation and the National Farmers Federation.

58 *Submission 54*, p. 2.

59 *Submission 87*, p. 2.

60 *Submission 104*, p. 6.

may effectively limit public access to such facilities for people who cannot afford their own equipment.

12.54 In other words, the costs involved in purchasing equipment and internet connection may prove to be a real obstacle for some people in regional, rural and remote Australia which frustrates their desire to bank 'on line'. A computer for home internet use still represents a significant outlay for many Australian households.<sup>61</sup>

12.55 A report by the Human Rights and Equal Opportunity Commission found:

A computer for home internet use would still be regarded as a very substantial investment by the great majority of Australian households and would be likely to remain financially out of reach for many. Some households are likely to reallocate expenditures to achieve internet access as the usefulness of this access expands and becomes more obvious, but this choice remains effectively unavailable to people on low and fixed incomes including many older people and people with disabilities, at least pending further development and deployment of a wider range of internet access technologies such as web phones and web TV.<sup>62</sup>

12.56 Recent statistics produced by the ABS support this observation. They show that costs associated with Internet use figured prominently in the reasons for households not having home internet. Although there is little difference between metropolitan and non-metropolitan regions, around a quarter of households without home internet access cite high costs as a barrier to access.

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61 The Catholic Women's League Tasmania submitted that the benefits of banking via the Internet 'will only service relatively few that enjoy access to personal computers and even this will be available at a cost'. *Submission 28*, p. 1. See also Human Rights and Equal Opportunity Commission, *Accessibility of electronic commerce and new service and information technologies for older Australians and people with a disability*, p. 3 of 17, [http://www.hreoc.gov.au/disability\\_rights/inquiries/ecom/ecomrep.htm](http://www.hreoc.gov.au/disability_rights/inquiries/ecom/ecomrep.htm) (31 March 2000).

62 Human Rights and Equal Opportunity Commission, *Accessibility of electronic commerce and new service and information technologies for older Australians and people with a disability*, 31 March 2000, p. 15 of 35, [http://www.hreoc.gov.au/disability\\_rights/inquiries/ecom/ecomrep.htm](http://www.hreoc.gov.au/disability_rights/inquiries/ecom/ecomrep.htm) (31 October 2002).



**Table 12.5—Main Reasons for Households being without Home Internet Access—2002<sup>63</sup>**

	No. of households without home internet access	No use	Lack of interest in the internet	Costs too high	Access elsewhere
	'000	%	%	%	%
Region					
Metropolitan areas	2 383	17	24	25	9
Ex-Metropolitan areas	1 667	15	28	27	5
<b>Total</b>	<b>4 051</b>	<b>16</b>	<b>25</b>	<b>26</b>	<b>7</b>

Currently, those who cannot afford to purchase their own equipment also have limited public access to internet facilities.<sup>64</sup>

12.57 The Committee accepts that a central component to improving access to basic financial services for Australians is ensuring that such services are affordable. In cases where banking options are restricted and some consumers cannot afford the initial expense for equipment, such as a computer, alternative arrangements should be implemented. The answer may well be in the provision of such equipment through other service providers such as the local library, an RTC or indeed the local council. Banks may well consider cooperating with local councils to supply and install such equipment.

### ***Cash flow and cash management problems***

12.58 While Internet and telephone banking provide a convenient means of paying bills and transferring funds, they do not provide a solution for people or businesses needing to deal in cash or cheques. Evidence presented in chapter 3 identified the difficulties experienced by small business when the local bank branch closes its doors. At the moment, electronic commerce does not address this problem of managing cash flow and cheques. The Shire of Woodanilling submitted that you cannot get cash from the Internet while the Catholic Women's League Australia observed that you cannot

63 ABS, *Household Use of Information Technology*, 2001-02, Catalogue No. 8146.0, Commonwealth of Australia, Canberra, 2003, p. 17.

64 See Human Rights and Equal Opportunity Commission, *Building bridges over the digital divide*, [http://www.hreoc.gov.au/disability\\_rights/inquiries/ecom/bridges.htm](http://www.hreoc.gov.au/disability_rights/inquiries/ecom/bridges.htm) (30 October 2002). See also the District Council of Robe which mentioned the cost of the Internet for people who do not want a computer and Internet access for work or pleasure (hardware and ongoing costs), *Submission 30*, p. 2.

deposit money or cheques over the phone or by the internet.<sup>65</sup> It argued that it is necessary to have options that will cater for these needs.<sup>66</sup>

12.59 Moving and managing large sums of cash is a serious issue for business. The Carnarvon Chamber of Commerce pointed out that employing new technologies does not help a remotely based business deal with cheques and cash, both of which need to be physically transported to branches. It made the point:

For one hotel business in the area, banking requires a 900 km round trip on gravel roads, subject to wash outs after rain and no amount of technology short of a ‘teleporter’ is going to solve their problem. They currently send their cash and cheques to their bank with trusted clients.<sup>67</sup>

12.60 To the same effect, the Guyra Shire Council noted that ‘most businesses deal in cash and cheques and thus rely on having facilities to deposit the day’s takings’. It asserted that if there are no banking facilities in the town, businesses have to travel greater distances to undertake their daily banking.<sup>68</sup> The Post Office Agents Association Ltd also noted that ‘there continues to be a need to have a physical channel to transact certain types of businesses, eg cash deposits and withdrawals, proof of identity, signature of documents, passbook accounts etc’.<sup>69</sup>

12.61 These limitations on the range of services offered through internet and telephone banking continue to pose problems especially for those in remote districts. Access to cash and face-to-face services are important elements in providing financial services across the nation and telephone and internet banking are rarely a complete solution for those living in remote areas.<sup>70</sup>

### ***Establishing a relationship between customer and banker***

12.62 Although the internet and telephone banking may put a customer in immediate contact with their bank, the nature of this contact is quite different from that established over the counter in a traditional branch. Indeed the use of call centres or the complex procedures in using the telephone to conduct a transaction or obtain advice can be a source of much irritation to the customer. The evidence presented in chapter 3 clearly showed the frustration experienced by customers who cannot converse with local staff about their banking business.

12.63 The sensible use of dedicated phone lines and designated account managers would go some way to help foster a better relationship between the customer and their bank. Clearly, the banks could give greater consideration to the more effective use of

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65 *Submission 14*, p. 1.

66 *Submission 70*, p. 2.

67 *Submission 94*, p. 2.

68 *Submission 50*, p. 4.

69 *Submission 77*, p. 8.

70 See for example the views of CUSCAL, *Submission 109*, p. 13.

telephone and internet banking to improve their customer service in this area. The following chapter deals with using technology to enhance the relationship between customer and bank.

## **Conclusion**

12.64 The Committee recognises that new technology offers enormous advantages for country people to conduct their banking business. Further, it has the potential to open up a range of other financial services to people in remote areas. The realisation of such benefits, however, depends on having access to stable, reliable and affordable telecommunications infrastructure capable of delivering a level of service that would enable all Australians to conduct their banking business efficiently and effectively. Until this can be provided to all Australians, access to the new services offered by the banks will be inequitable and country people in particular are destined to lose out.

12.65 Making suggestions regarding the quality and reliability of telecommunication infrastructure, including the cost associated with data lines and links to more remote communities is beyond the scope of this Inquiry. The Committee, however, stresses that any initiatives to enhance information technology and telecommunications infrastructure in rural, regional and remote Australia must consider the provision of financial services.

12.66 In turning to the matter of affordability of equipment, the Committee accepts that there are people in country Australia who cannot afford the outlay to purchase a computer and hence will have limited access to internet banking. The Committee believes that Government and banking industry assistance toward ensuring that communities have access to public phones and internet terminals is a first step toward enabling all Australians to access electronic banking.

12.67 The following chapter discusses some of the steps being taken by community groups in the country to make the new technology work to the advantage of people living in outlying areas.



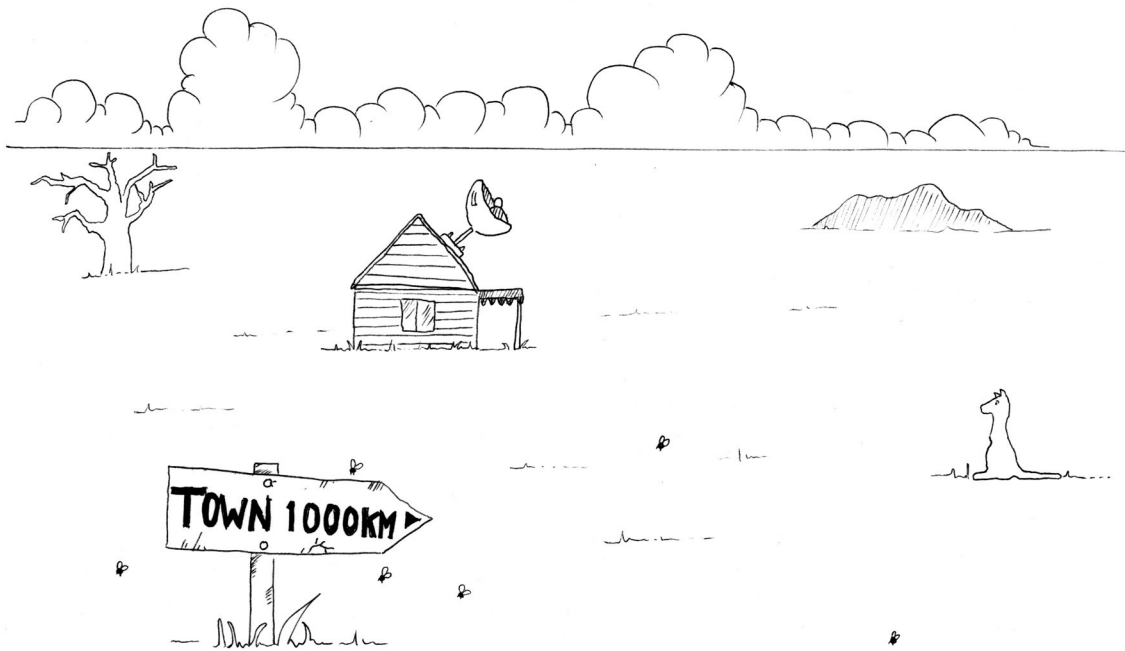
# CHAPTER 13

## THE POTENTIAL OF ELECTRONIC BANKING

13.1 Advances in technology were expected to bring great benefits to consumers in meeting their banking needs. Indeed, many consumers have enthusiastically adopted the new ways of conducting banking and welcomed the ease, convenience and safety it offers them. A recent guide to e-commerce for Australians living in rural and regional Australia announced:

Rural and regional Australians in particular stand to reap significant social and economic benefits from e-commerce as it helps to overcome 'the tyranny of distance' which so often isolates rural and regional communities from larger domestic and international markets.<sup>1</sup>

### Overcoming the 'tyranny of distance'<sup>2</sup>



The spacious shopping aisles of the online shopper

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- 1 Robert Parker and Franco Papandrea, The Rural Industries Research and Development Corporation, *The Rural and Regional Guide to E-Commerce*, Canberra, May 2002, p. xiii.
  - 2 Illustration taken from Robert Parker and Franco Papandrea, *The Rural and Regional Guide to E-Commerce*, the Rural Industries Research and Development Corporation, Canberra, 2002, and reproduced with the kind permission of the Rural Industries Research and Development Corporation.

13.2 Ironically, although advances in technology have enabled people to transact basic banking business at any hour of the day and from the comfort of their own home or office, it has also effectively erected barriers between the bank and some of its customers. As noted in chapter 3, one of the major concerns expressed by witnesses was the loss of personal service. In many ways, this sense of distance between the bank and the customer has been exacerbated by new technology.

13.3 The challenge for the banks is to meet the growing consumer demand for new service channels while ensuring that the growing reliance on electronic banking does not effectively sever important links between customers and their bank. The following section touches on the potential for new technology to enhance and strengthen ties by using technology to extend the reach of financial services providers to those living in remote districts. It also goes beyond exploring the provision of basic banking transactions to consider the broader issue of using new technology to provide financial assistance and advice to people in regional, rural and remote Australia.

### **Using technology to bridge the divide**

13.4 Some Councils are taking on the dual responsibility not only of making available the necessary equipment but also providing a friendly reassuring environment in which people can experiment with and finally use the internet for banking purposes. A simple example of this practical and sensitive approach came from the Rosalie Shire Council whose mobile library provides Internet and email services to all areas of the shire. Mr Weber explained:

I come back to our flagship, our mobile library. We have recently established Internet connections in all of these towns—Acland, Bowenville, Cooyar, those kinds of places. Again, the populations in those areas are older. We found in the beginning that people came to use the library and take the books as they always had done; it has taken them a while to realise that the computer that is sitting in the corner is something that they can use to talk to their sons and daughters who are wherever in the world. Usage has been slow to take off, but we have pushed it over the last 12 to 18 months and acceptance is increasing.

...

Our librarian provides them with training and shows them how to use it. It is not formalised, and we did not intend to formalise it, from the beginning, but certainly he does provide training. Acceptance has been excellent.<sup>3</sup>

13.5 The council is considering ways to ‘piggyback on that service’ to deliver banking services to its community.<sup>4</sup>

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3 Clinton Weber, *Committee Hansard*, 22 May 2003, p. 463.

4 Clinton Weber, *Committee Hansard*, 22 May 2003, p. 453.

13.6 Along similar lines, the Upper Murray Regional Library is taking advantage of a service already in place to improve banking services to regional communities. The library operates two mobile libraries to service the remote localities in the district. It noted that many of the areas covered by the mobile library service do not have the telecommunications infrastructure to provide online access to services. In September 2001, the Library launched a pilot program using two-way mobile satellite telecommunications that provide the rural and remote communities with online access to the same services as delivered in their 12 static branches. It found that the pilot project indicates that:

...online services can be delivered to communities that do not have online access via standard telecommunications infrastructure. This offers the possibility of introducing innovative delivery of other services than online information and library services.<sup>5</sup>

13.7 It has been pursuing the idea of a Mobile Rural Transaction Centre that would include banking services among the other services it would deliver. It concluded:

It is possible for these services to be delivered via a vehicle similar to (but not as large as) that delivering Library and Information Services from Upper Murray Regional Library. This is one option for the expansion of banking facilities through non-traditional channels including the new technology being piloted by Upper Murray Regional Library. The benefit being that for one financial outlay a number of communities can have the same services as provided by static Rural Transaction Centres.<sup>6</sup>

13.8 The idea of the mobile rural transaction centre is an innovative approach to addressing the problem of enabling people to conduct basic banking transactions. The ground-breaking work in this area in South Africa with their mobile ATM scheme provides a practical example of how technology can be used to provide people in outlying areas with an effective combination of over-the-counter and self-service banking services (see Chapter 7, para 7.37) The Committee is of the view that such schemes warrant government support and further consideration should be given to the wider implementation of such schemes. Moreover, the Committee believes that the banking industry should be spearheading innovation in this area.

## **Recommendation 16**

**The Committee recommends that the review as suggested in recommendation 10 include consideration of the more innovative ways that RTCs may be involved in delivering banking services to the remote areas of Australia including the concept of a mobile RTC.**

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5 *Submission 37, p. 2.*

6 *Submission 37, p. 2.*

## Electronic banking and customer relationships

13.9 The possibility of disenfranchisement from the banking and finance world highlights the importance of providing all Australians with access to new ways of banking. The innovative use of technology such as mobile rural transaction centres are designed to assist consumers better manage basic banking services. A number of submissions noted that physical access to a facility or equipment is not the only matter of concern when considering the adequacy of banking services. The Gunning Shire Council submitted that personal contact should not be underestimated and that electronic options fail to recognise the importance of the social interaction that is associated with banking transactions.<sup>7</sup>

13.10 For example, the Uniting Church Synod of South Australia which often intercedes on the part of people who feel they have been treated unfairly or inappropriately by banks highlighted some of the difficulties experienced by people without access to over-the-counter services. It noted:

The removal of face-to-face banking services in rural areas has meant that advocacy work is relegated to phone communication. Ministers have found their ability to confront bank staff with a problem and to resolve it over the phone is more difficult than previously.<sup>8</sup>

13.11 The Shire of Dandaragan maintained that, ‘people want to be able to communicate with their local bank branch and its officers, not to go through metropolitan areas.’ It maintained that ‘local decision making is required as queries/decisions are directed to a centralised location which cannot necessarily have the local knowledge to deal with a specific request’.<sup>9</sup> It highlighted a few simple improvements that would help to compensate for the lack of personalised customer service. It suggested the need ‘to have direct phone contact to individual bank branches and not to have to go through major capital cities’.<sup>10</sup>

13.12 Dr David Morgan highlighted the difficulties that electronic banking can generate for bank customers. He stated:

And the real problem is not just because the ATMs are sometimes down, or the branch computers have a hiccup or the lines are busy on telephone banking. Yes, these are the points of considerable irritation, but more importantly they highlight the deficit of understanding the technology creates. Technology might empower people but it also adds to the feeling of powerlessness. It has dehumanised what has been a very human business.

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7 *Submission 56*, p. 2.

8 *Submission 84*, p. 6.

9 *Submission 125*, pp. 2–3.

10 *Submission 125*, p. 2.



And it adds up, I've little doubt, to a perceived lack of recognition and respect.<sup>11</sup>

13.13 The business sector in particular finds that the centralisation of banking facilities by some major financial institutions makes it difficult for them to discuss their banking and business needs with professional staff or the bank manager. The Gosford City Council noted that while 'reliance on technology may assist some businesses with the efficiency of transactions, the issue of access to professional banking staff also needs to be considered'.<sup>12</sup>

13.14 The Committee believes that the increasing trend toward the centralisation of services and the reliance on electronic banking has not been accompanied by appropriate measures by banks to ensure that they retain and foster personal relationships with their customers. The Australian Bankers' Association Industry Standards for both Automated Telephone Banking and Internet Banking offer valuable guidance for banks on how to make these services more accessible to their customers. For example a standard set down in the industry standard for automated telephone banking requires:

Users who are having difficulty in navigating or comprehending the automated service shall, during the hours operators are normally available, be given the option to speak with an operator in order to carry out their transactions.<sup>13</sup>

13.15 Although such standards are definitely a step in the right direction they do not adequately address this issue of the quality of communication between the customer and their bank. Evidence to the Committee shows that people, especially business people, want to be able to converse with an officer who has an understanding of their affairs and an appreciation of the local economy. Measures including dedicated phone lines and designated account managers are going some way to restoring better personal relationship between customers in regional, rural and remote Australia and their banks. The Committee believes, however, that the people fulfilling these roles must have more local community knowledge than currently appears to be the case.

## **Recommendation 17**

**The Committee recommends that banks have trained officers available in their regional centres to look after the banking needs of customers in country Australia who do not have face-to-face access to trained bank staff. These designated officers would have responsibility for customers from a particular**

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11 David Morgan, 'Banks and the Bigger Picture', *Business and Financial Services*, December 2000, p. 9.

12 *Submission 74*, p. 2.

13 Australian Bankers' Association, Industry Standard: Automated Telephone Banking, para. 11.4.4

**geographic area and have direct knowledge of the local community and businesses in the district.**

### **The broader issue of access to financial advice and assistance**

13.16 The focus on the delivery of the more elementary aspects of banking should not eclipse the much broader issue of the provision of advice and assistance across a range of financial services. According to many witnesses, modern technology has not compensated for the loss of face-to-face banking. They argued that while communities in rural, regional and remote Australia may generally have access to transaction services, many do not have access to comprehensive financial services.<sup>14</sup> The Committee has discussed the importance of the personal relationship between the customer and the bank. The following section broadens the scope of this examination to include a wider range of financial services.

13.17 The Finance Sector Union of Australia made the point that there is a clear distinction between transaction banking and comprehensive financial services and suggested that all initiatives ‘must aim to provide comprehensive financial services to rural, regional and remote communities, not just transaction services’.<sup>15</sup>

13.18 A recent survey highlighted the importance of addressing all aspects of banking and financial services not just basic banking transactions when considering the adequacy of banking and financial services in country Australia. It found that generally, there was a strong demand for further education in banking and financial matters, with only 14 per cent of respondents considering that they did not need further education in relation to finance.<sup>16</sup> On presenting the survey, Mr John MacFarlane, CEO of ANZ, stated:

While this survey indicates Australia has a good foundation of basic skills it is very clear there are challenges. These include increasing understanding in the areas of investment, superannuation and retirement planning and in assisting the most vulnerable sections of the community many of whom are struggling with financial skills.

By empowering people with the appropriate financial skills, knowledge and information they are better placed to make informed decisions about their money and avoid being misled on financial matters.<sup>17</sup>

13.19 Of particular relevance to this inquiry was the survey’s finding that people living in country areas are slightly overrepresented in the lowest financial literacy

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14 Finance Sector Union of Australia, *Submission 69*, p. 9.

15 *Submission 69*, p. 11.

16 ANZ, *ANZ Survey of Adult Literacy in Australia: Final Report*, prepared by Roy Morgan for the ANZ Banking Group, May 2003.

17 ANZ, Media Release, ‘ANZ releases Australia’s first financial literacy survey’, 2 May 2003.

quintile and under-represented in the highest financial literacy quintile.<sup>18</sup> This lower level of financial literacy coupled with more difficult access to banking and financial services, particularly face-to-face service, makes the task of ‘empowering people with the appropriate financial skills, knowledge and information’ more of a challenge.

13.20 The findings of this financial literacy survey underscored the importance of ensuring that people in regional, rural and remote Australia have access to the full range of banking services. Where over-the-counter service is not a commercially viable option, the innovative use of technology can assist people with their banking needs and put them in closer contact with their bank. The Committee believes that the potential of technology to enhance communication between banks and their customers has not been adequately tapped.

13.21 A number of the problems could be solved partly by service providers informing themselves of their customers needs, taking account of their requirements and using technology to engage their customers not disconnect them. Rather than alienate the customer, the Committee believes that the clever use of technology and sensible communication initiatives could be used to bridge the divide.

### ***Use of video conferencing***

13.22 The Community Teleservices Australia (Inc) (CTSA) is a national association representing rural and regional Telecentres, RTCs, Online Access Centres and any other community-based Teleservice Centres. These centres are community owned and operate service facilities based mainly in small rural towns throughout Australia. Each Centre serves the unique needs of its community. Overall, however, they share many common objectives and capabilities, including community development, information provision, technology-based training, distance education, email and internet access, secretarial, financial and desktop publishing services.<sup>19</sup>

13.23 Teleservice Centres are found throughout rural and remote Australia in places that have a population ranging from 200 to 5000 people. CTSA believes that these Teleservice Centres already provide a structure that may be used ‘to develop banking services to rural areas with minimal establishment costs, providing that ongoing issues of funding for personnel and communications access (cost and speed) can be addressed’.<sup>20</sup>

13.24 A number of other submissions also saw the potential for new technology to be used to deliver banking and financial services. The Guyra Shire Council suggested the use of video technology to assist in providing face-to-face contact with an appropriate person of authority in the bank who may be located in another town. It submitted:

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18 ANZ, *ANZ Survey of Adult Literacy in Australia: Final Report*, prepared by Roy Morgan for the ANZ Banking Group, May 2003, pp. 15 and 17.

19 *Submission 113*, p. 1.

20 *Submission 113*, p. 3.

A separate booth or room could be set up for video conferencing in each branch. A similar facility may be able to be shared between the various banks in the same town. Relevant documents could also be faxed between the locations and if done professionally, every thing that could be carried out at a face to face meeting could be carried out via interactive video conferencing.<sup>21</sup>

13.25 The Shire of Victoria Plains suggested that if services such as online banking, advice access and technological advantages could be provided through agencies then the services offered could be the same as those offered by the actual bank branch to a major extent. It acknowledged, however, that the cost of the installation would be a significant barrier to any organisation contemplating installing such facilities in regional Australia.<sup>22</sup>

13.26 Mr Brittain, CEO, Nanango Shire Council, who has experience with the technology, agreed with the view that videoconferencing could restore the personal interaction between the bank and customers in towns without a bank branch. He observed, however, that ‘as an operator of an RTC, I do not want to be wearing the cost of operating a videoconferencing centre in Blackbutt’.<sup>23</sup>

13.27 Although the use of technology such as videoconferencing hinges on costs which at the moment are a major obstacle, the Committee believes that there is scope for improvement and increasing use. Again it would like to see the ADIs take a leading role in experimenting with this type of technology as a means to enhance their relationship with their customers.

## Conclusion

13.28 This report has shown that e-commerce has the potential to break down the geographical barriers and allow people living in the more remote areas of Australia easy access to a range of banking and financial services. For all the advantages that modern technology brings to consumers, however, it also creates difficulties for some people. This is particularly so in the case where a consumer lives or works in an area that does not provide full banking services and who, therefore, must rely on new service channels as a substitute.

13.29 Although some submissions argued that new technologies would not provide sufficient services to meet residents’ needs,<sup>24</sup> the Committee believes that the banking sector has not done enough to facilitate access to new technology and most importantly has failed to ensure that their clients have the opportunities and are encouraged to use new technology. It would like to see the banking sector work more

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21 *Submission 50*, p. 2.

22 *Submission 49*, p. 2.

23 *Committee Hansard*, 22 May 2003, p. 478.

24 *Submission 55*, p. 1.

closely with community organisations especially with funding for projects such as computers in libraries and the mobile library concept.

13.30 The Committee also urges the banking industry to consider how best they can use new technology to cultivate a far more positive environment in which country people could conduct their banking business. It has already mentioned adopting communication methods that are easier to use and less intimidating and establishing travelling or mobile banking units to make personal contact with customers. Better training of staff in agencies and more constructive use of the Post Offices would also assist ADIs build stronger links with their customers.

13.31 It clearly sees a role for government in partnership with the banking industry and community groups to ensure that the opportunities offered by new technology are fully exploited. The RTC program and Australia Post present scope for testing a range of projects designed to explore the potential of new technology.

13.32 The practical difficulties of gaining access to a reliable and affordable telecommunications service are not the only barriers to the use of electronic banking. Attitudes towards the technology and the ability to use it effectively can influence the use of modern technology. The following chapter looks at matters such as competency and confidence in using electronic banking and examines them in the context of the needs and experiences of older Australians.



## **Part III**

### **Groups in rural, regional and remote Australia facing particular difficulties in accessing banking and financial services**

The report so far has discussed the difficulties experienced by some sectors of the community with the changing dynamics of banking. It notes that the withdrawal of over-the-counter services and the growing expectation that customers will use modern technology as a substitute for face-to-face banking places some groups in the community at a distinct disadvantage.

Part III looks at two groups that have particular problems gaining access to banking and financial services and in adjusting to the rapid changes taking place in the banking industry—older Australians and Indigenous Australians. By concentrating on just these two groups, the report hopes to identify problems likely to be experienced by other groups in the community, such as the unemployed, those on fixed low incomes, welfare recipients, and the disabled.





# CHAPTER 14

## OLDER AUSTRALIANS

14.1 The Committee recognises that to participate fully in the world of electronic banking, citizens must have access to and mastery of the new technology. Yet some consumers of retail banking services, particularly those in regional, rural and remote Australia, feel as though they have not benefited from reform or enhanced competition and that technology rather than carrying them forward is leaving them behind. The report has considered a number of obstacles that form real barriers to accessing electronic banking including the absence of facilities such as ATMs, EFTPOS, computer terminals and telephones in the community; inadequate infrastructure to support the delivery of the service; and costs associated with purchasing the necessary equipment.

14.2 There are, however, other circumstances that hold people back from using electronic banking notably inadequate education and training. This chapter looks in greater depth at these impediments and uses the experiences of older Australians to highlight some of the difficulties that discourage people from using electronic banking in regional, rural and remote Australia.

### **Older people in rural, regional and remote Australia**

14.3 Older people are increasing both in number and as a proportion of the total population. Over the last 100 years, the proportion of the population aged 65 years and over has increased from 4 to 12 per cent and is projected to rise to about 18 per cent by 2020.<sup>1</sup> Moreover, they constitute a sizeable presence in rural and regional Australia.

14.4 Overall, according to the Bureau of Statistics, non-metropolitan regions in Australia have populations older than metropolitan regions. It explained further:

Many of the older inland SLAS [Statistical Local Areas] (those SLAs with at least 16% of their population aged 65 years and over) were located in the wheat-sheep belt to the west of the Great Dividing Range, extending from the west of Spencer Gulf in South Australia, across to western Victoria (particularly around Horsham), and along the Murray River into New South Wales. There were more older SLAs just north of Wagga Wagga from Coolamon to Coonabarabran, up to Bingara and into south-east Queensland, ending inland from Hervey Bay.<sup>2</sup>

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1 Australian Bureau of Statistics, *Australian Social Trends 2002*, Catalogue No. 4102.0, Commonwealth of Australia, Canberra, 2002, p. 7.

2 Australian Bureau of Statistics, *Australian Social Trends 2002*, Catalogue No. 4102.0, Commonwealth of Australia, Canberra, 2002, p. 9.

14.5 Older Australians in country areas confront the same difficulties as other local residents in accessing banking and financial services. In some cases, however, their problems are compounded especially since many are on low and fixed incomes,<sup>3</sup> are unfamiliar and intimidated by new technology, may have health problems and have difficulties travelling. They appreciate the assistance, reassurance and convenience of over-the-counter services.

14.6 The withdrawal of face-to-face services, therefore, places many older Australians at a greater disadvantage. The need to travel provides just one example of the increased difficulties faced by older Australians as banks retreat from regional, rural and remote Australia.

## Transport

14.7 Mr Chris Sidoti, former Human Rights Commissioner, noted that the lack of transport in small rural centres means that it can be difficult for elderly people to maintain an independent lifestyle or to remain in their home town at all. He noted that in Victoria the Commission was told that ‘public transport is almost non-existent in country areas’. He stated:

You can imagine the effect on a frail older person when a local bank closes. If transport is virtually non-existent and the person is unable to drive, access to essential banking services is not merely inconvenient—it is impossible.

And it is not only getting to the bank, but also finding a person to serve you when you do get there! With the increased use of Automatic Teller Machines, people in country areas are forced at times to rely on a machine without a teller being available to answer questions or even explain how to withdraw money from your own account.<sup>4</sup>

14.8 Many submissions also made this general observation about the difficulty faced by older people in having to travel to the nearest town to do their banking. The Local Government Association of Tasmania stated that very few remote areas provide transport services between towns and customers are physically not able to get to their nearest branch for more detailed information with regard to their finances. Councillor Smith from the Boonah Shire Council referred to a small town in the district, Kalbar, where the National had closed leaving residents without banking facilities. He noted that there was no public transport and elderly people ‘getting into Boonah to do their

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3 The Australian Bureau of Statistics found that average income falls markedly with age. See Australian Bureau of Statistics, *Older People, Australia: A Social Report, 1999*, Catalogue No. 4109.0, Commonwealth of Australia, Canberra, 15 December 1999, p. 2.

4 Chris Sidoti, The human rights of older Australians in the bush, Speech, Rural Ageing Seminar, Bungaree Station, 1 November 1999, p. 4 of 7  
[http://pandora.nla.gov.au/pan/13170/200010711/www.hreoc.gov.au/speeches/human\\_rights/hr\\_older\\_au\\_bush.html](http://pandora.nla.gov.au/pan/13170/200010711/www.hreoc.gov.au/speeches/human_rights/hr_older_au_bush.html) (29 October 2002).

banking for their pension cheques was almost prohibitive and they had to rely on family to get them in'.<sup>5</sup>

14.9 Many local councils recounted the experiences of older Australians suggesting that as more and more services become automated and electronically delivered, they may be increasingly blocked from accessing essential services.<sup>6</sup> Yet, as shown in Chapter 6, ADIs place a heavy reliance on alternative service channels to compensate for the lack of over-the-counter services, and older Australians form the very group that is less likely to adopt new ways of banking.

14.10 This chapter first examines the use of modern technology by older people and then seeks to understand the reasons some are not taking advantage of the new ways of banking. It looks at:

- their strong attachment to old ways and their unfamiliarity with new technology;
- their level of financial literacy; and
- physical barriers to accessing new technology such as poor eyesight or failing health.

### **Older Australians and the use of new technology**

14.11 A recent survey of adult financial literacy in Australia found that people aged 70 and over were among the groups less likely to use or know how to use ATMs, EFTPOS, telephone banking and Internet banking.<sup>7</sup> These statistics take on greater significance for this group living in regional, rural and remote Australia because of the difficulties already facing people in country Australia with the decline in the provision of traditional bank services and the increasing emphasis given to self-service banking.

14.12 The following table, based on a recent survey of adult financial literacy, substantiates the anecdotal evidence presented to this Committee. It shows clearly that older Australians as a group are less likely to use or know how to use new technology.

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5 *Committee Hansard*, 23 May 2003, p. 504.

6 Chris Sidoti, The human rights of older Australians in the bush, Speech, Rural Ageing Seminar, Bungaree Station, 1 November 1999, p. 4 of 7  
[http://pandora.nla.gov.au/pan/13170/200010711/www.hreoc.gov.au/speeches/human\\_rights/hr\\_older\\_au\\_bush.html](http://pandora.nla.gov.au/pan/13170/200010711/www.hreoc.gov.au/speeches/human_rights/hr_older_au_bush.html) (29 October 2002).

7 ANZ Banking Group, *ANZ Survey of Adult Financial Literacy in Australia, Stage 2: Telephone Survey Report*, April 2003, prepared for ANZ Banking Group, by Roy Morgan Research, Melbourne, 2003, pp. 52, 55, 68 and 74.

**Table 14.1—Use and knowledge of ATMs, EFTPOS, telephone banking and internet banking by age<sup>8</sup>**

The following questions were put to participants in the survey: A1. There are various ways of paying for goods and services. Which of the following payment methods do you, yourself, use? A2. IF DOESN'T USE, ASK: What other payment methods do you know how to use, even if you don't use them yourself?			
<b>Demographic Profile for ATM Knowledge</b>			
<b>Response – Use or know how to use ATMs: 91%</b>			
<i>Age</i>	%	<i>Age</i>	%
➤ 18-24	98	➤ 60-69	81
➤ 25-34	98	➤ 70 and over	66
➤ 35-44	97		
<b>Demographic Profile for EFTPOS Knowledge</b>			
<b>Response – Use or know how to use EFTPOS: 89%</b>			
<i>Age</i>	%	<i>Age</i>	%
➤ 18-24	98	➤ 60-69	77
➤ 25-34	97	➤ 70 and over	54
➤ 35-44	97		
<b>Demographic Profile for Telephone Banking Knowledge</b>			
<b>Response – Use or know how to use telephone banking: 68%</b>			
<i>Age</i>	%	<i>Age</i>	%
➤ 25-34	81	➤ 60-69	49
➤ 35-44	78	➤ 70 and over	37
<b>Demographic Profile for internet Banking Knowledge</b>			
<b>Response – Use or know how to use Internet banking: 52%</b>			
<i>Age</i>	%	➤ <i>Age</i>	%
➤ 18-24	64	➤ 60-69	29
➤ 25-34	68	➤ 70 and over	16
➤ 35-44	63		

8 This table is a compilation of data taken from four different tables nos. 11, 13, 20 and 23 in ANZ, *ANZ Survey of Adult Literacy in Australia, Stage 2: Telephone Survey Report*, prepared by Roy Morgan for ANZ Banking Group, April 2003, pp. 52, 55, 68 and 74. The original tables did not include figures for the 45–59 age group but the pattern established by the statistics is consistent.

14.13 Statistics from the ABS, which concern the actual use of the various service channels to pay bills or move funds, present a stark representation on the extent to which older Australians lag behind their younger cohorts when it comes to using new technology. The data in table 14.2 shows the low percentage of people over the age of 65 years who use electronic commerce.

**Table 14.2—Adults Undertaking Internet and Selected Electronic Transactions for 1998–2000 and 2000 by age groups<sup>9</sup>**

	<i>Total no. of adults</i>	<i>Paid bills or transferred funds via the Internet</i>	<i>Paid bills or transferred funds via phone</i>	<i>Paid bills or withdrew funds via EFTPOS</i>	<i>Transferred or withdrew funds via ATM</i>
	'000	%	%	%	%
1998	13 429	1	35	61	69
1999	13 589	3	40	63	71
2000	13 840	9	50	66	74
Adults undertaking Internet and selected electronic transactions for 2000 by age groups					
	<i>Total no. of adults</i>	<i>Paid bills or transferred funds via the Internet</i>	<i>Paid bills or transferred funds via phone</i>	<i>Paid bills or withdrew funds via EFTPOS</i>	<i>Transferred or withdrew funds via ATM</i>
Age group (years)	'000	%	%	%	%
18-24	1 843	9	49	83	89
25-34	2 815	14	63	84	90
35-44	2 887	12	59	79	85
45-54	2 532	10	53	66	75
55-64	1 681	6	42	49	60
65 or over	2 083	*1	22	26	32

9 ABS, *Household Use of Information Technology: 2001–02*, Catalogue no. 8146.0, September 2003, Commonwealth of Australia, Canberra, p. 37.

14.14 The following data produced by the ABS focuses on the use of the Internet to pay bills or transfer funds. While it shows that over recent years the number of older Australians using the Internet to pay bills or transfer funds has gradually grown, there is nonetheless a sharp drop in the number of people aged 55 or above using the Internet for such purposes.

**Table 14.3—Paying Bills or Transferring Funds via the Internet according to age group: 1999–2002<sup>10</sup>**

Persons Paying Bills or Transferring Funds via the Internet								
Age	1999		2000		2001		2002	
	'000	%	'000	%	'000	%	'000	%
18–24	52	3	162	9	325	17	509	27
25–34	129	5	391	14	734	25	1 046	36
35–44	100	3	364	12	665	23	869	30
45–54	72	3	256	10	447	17	622	24
55–64	*18	*1	101	6	168	9	263	14
65 or over (a)	*7	-	*20	*1	-	-	84	4

\* estimate has a relative standard error of between 25% and 50% and should be used with caution  
- nil or rounded to zero  
(a) Persons aged 65 years or over not in scope in 2001.

14.15 As mentioned earlier, new technology has much to offer consumers especially older people living in country Australia. In particular, it would relieve them of the burden of travel or relying on others to do their banking and be a much safer and convenient way to conduct banking. The following section examines the reasons older Australians are shunning new technology.

### **Strong attachment to traditional banking**

14.16 Older Australians are accustomed to face-to-face banking and according to evidence many avoid self-service banking facilities. For them over-the-counter

10 Australian Bureau of Statistics, *Household Use of Information Technology, Australia*, Catalogue No. 8146.0, Commonwealth of Australia, Canberra, 2003, p. 37.

services offer security and peace of mind and they particularly value the personal contact.<sup>11</sup>

14.17 The Winton Shire Council informed the Committee that it is a small, remote community in outback Queensland with a population of around 2,000 including a lot of older members of the community. It maintained that the older residents have a 'greater expectation of face-to-face service and are more resistant to technology'. It asserted that 'there is a definite need for a provision of traditional banking format, because of the desire for a face-to-face contact from an older and conservative community'.<sup>12</sup>

14.18 The Narrandera Shire Council expressed the views of many councils when it stated that despite the advances in technology, 'face-to-face banking remains an important service, particularly valued by the elderly'.<sup>13</sup> Similarly, the Manilla Shire Council maintained that a vast number of its graziers and farmers and senior citizens are not familiar with using the Internet at all. It added:

Further they are not accustomed to using an impersonal piece of technology for performing their banking and financial actions and needs, when these functions were (not that long ago) fulfilled by warm, caring and friendly bank personnel.<sup>14</sup>

14.19 The Post Office Agents Association Ltd agreed with this view. It submitted that the elderly and less mobile continue to prefer the use of passbook accounts requiring physical access to financial institutions either directly or through their agents.

### **Older Australians navigating electronic banking**

14.20 The preference for over-the-counter service derives not only from a strong attachment to the traditional and familiar way of banking. Many older Australians are intimidated by change and not all have the level of confidence, skill or competency to master the new technology.

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11 Mayor Strohfeld, *Committee Hansard*, 22 May 2003, p. 452; Councillor Robert Smith, Boonah Shire Council, *Committee Hansard*, 23 May 2003, p. 501.

12 *Submission 27*, p. 1.

13 *Submission 36*, p. 1. The Shire of Nannup informed the Committee that its district is classified as a low socio-economic district with wage levels well below average and with a high level of unemployment. This coupled with a high proportion of the population being retirees creates a high demand for 'in person' banking services relative to the population base. *Submission 42*, p. 1. The Edenhope and District Community Bank Steering Committee stated that 'Our population is ageing and many older people in the community are not receptive too much of the new electronic media for carrying out their business'. See *Submission 81*, p. 1.

14 *Submission 91*, p. 3.

### ***Proficiency in using new technology***

14.21 Many witnesses referred to people's lack of confidence in using modern technology such as telephone and internet banking.<sup>15</sup> The Country Women's Association of New South Wales noted that e-commerce, Internet banking and telephone banking all rely on the competence and confidence of their users. It asked, 'Do the CEOs of our major banks understand that ours is an ageing society, that many people fear and resist change, even when they have the tools to embrace it?'<sup>16</sup> Councils in particular were aware of residents who have difficulties adjusting to new technologies, are intimidated by the technology and confused and unnerved by the rate of change. According to the District Council of Robe many people who are unfamiliar with the technology (especially the elderly) fear the new and different ways of banking.<sup>17</sup> The Holroyd City Council observed that not all banking customers are equipped for or comfortable with electronic banking.<sup>18</sup>

14.22 The Shire of Woodanilling, the Shire of Laverton and the Council of the Shire of Cardwell also referred to the difficulties experienced by older Australians who may find the new banking technologies and non-traditional means of carrying out personal banking services confusing and hence difficult to access.<sup>19</sup>

14.23 The view of the Latrobe City Council was typical of a number of community groups in suggesting that many country people 'feel that they are exposing themselves to ridicule by indicating they are computer illiterate, and do not appreciate that in a mature age population some 60% of their age have never needed to access this technology'.<sup>20</sup>

14.24 This concern about the proficiency of older people in using new technology was a dominant theme in the evidence presented to this Committee and is reflected consistently throughout this report.<sup>21</sup> Mr Christopher Francis is only one of a number of community representatives who highlighted the difficulties facing people in adopting to new ways, particularly the older members of society, who have not grown up with computers and other electronic forms of communications. He explained:

First of all I have to have a computer and a modem. I then have to get to the site and log online. I then have to put in my card number or my bank number, my password and my security password. Imagine what a 75-year old person, with no exposure to a computer, is going to make of that. Unless

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15 *Submission* 100.

16 *Submission* 86, p. 3.

17 *Submission* 30, p. 2.

18 *Submission* 18, p. 3.

19 *Submission* 14, p. 2; *Submission* 31, p. [5]; *Submission* 40, p. 2.

20 *Submission* 38, p. 10.

21 See for example, Councillor Robert Smith, Boonah Shire Council, *Committee Hansard*, 23 May 2003, p. 501.



you train people, unless you educate people about the use of the technology and show them that there is some benefit in it, they are not going to be interested.<sup>22</sup>

14.25 Councillor Lykke made a similar observation about older Australians and electronic banking. He told the Committee:

They will learn little bits of it, but it is never going to be convenient to them—they are going to feel alienated all the way. I think that whenever we set up some system for a community we should be looking at the lowest common denominator and asking: can that be done? I do not expect that someone who is over 80 years of age and is starting to forget what their name is needs to have all those facilities...

It has been my experience that when you start to make things complicated there is always that sector of the population that drops off.<sup>23</sup>

14.26 A number of witnesses also spoke of people's unwillingness to take up electronic banking because of security concerns about the integrity of the system and about their own safety when using electronic banking. Mr Francis told the Committee that 'rural and regional people are more concerned, more conservative, and are probably not going to want to risk doing online banking if they are going to lose their money to some hacker overseas somewhere'.<sup>24</sup> The Financial Services Consumer Policy Centre wrote:

The elderly are reluctant to use ATMs and EFTPOS services on grounds which include; confusion about differences between debit and credit cards, concerns about personal safety when using ATMs and EFTPOS, and suspicion about reliability of technologies, including over the phone services. The elderly also worry that machines may swallow their cards, are in constant anxiety about forgetting their PIN numbers.

### ***Risk of financial exclusion***

14.27 The Committee is concerned not only with people missing out on the ease and convenience of accessing electronic banking but the longer term possibility of such people being effectively excluded from basic services and information. Professor Alice Tay remarked that 'information technology has the dual potential to disadvantage and marginalise those who "miss the technology bus" and to benefit and enfranchise those who catch it'.<sup>25</sup> As quoted previously, Dr David Morgan, CEO,

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22 *Committee Hansard*, 26 February 2003, p. 276.

23 *Committee Hansard*, 13 March 2003, p. 422.

24 *Committee Hansard*, 26 February 2003, p. 277.

25 Chris Sidoti, The human rights of older Australians in the bush, Speech, Rural Ageing Seminar, Bungaree Station, 1 November 1999, p. 5 of 7  
[http://pandora.nla.gov.au/pan/13170/200010711/www.hreoc.gov.au/speeches/human\\_rights/hr\\_older\\_au\\_bush.html](http://pandora.nla.gov.au/pan/13170/200010711/www.hreoc.gov.au/speeches/human_rights/hr_older_au_bush.html) (29 October 2002).

Westpac, observed that ‘technology might empower people but it also adds to the feeling of powerlessness. It has dehumanized what has been a very human business’.<sup>26</sup>

14.28 As access to banking services becomes increasingly reliant on new technology for its delivery, older Australians struggle to adjust to the changes. There is a real likelihood that as a group they may ‘miss the technology bus’ and thereby become stranded from mainstream banking. The Committee has found no evidence that banks have with commitment and determination set about ensuring that older Australians are on board the technology bus.

### ***Education and training***

14.29 Despite all the assurances given by the banks that they have in place initiatives designed to assist people to use the new technology, people are still reluctant, even refusing, to adopt it. Witnesses highlighted again and again the need for improved education and training programs especially for older Australians.<sup>27</sup>

14.30 Local Councils, who are well placed to understand the needs of local residents, underlined the importance of adequate training for older Australians. For example, the Shire of Dandaragan, as did many, noted the need for further training programs for seniors.<sup>28</sup> The Council of the City of Ballarat recognised that the adoption of new technology depends to a large extent on education and training that enables the user to access the service. The East Gippsland Shire Council endorsed the view that there was a need for educating rural communities in the use of new technologies and assuaging the inherent fear in relation to ‘virtual money’.<sup>29</sup> Many submissions, however, referred to the paucity of training for client users.<sup>30</sup>

14.31 Mr Charles Burke, NFF, told the Committee that while people want to embrace new technology if it is available, the problem exists of simply having people to educate them in its use.<sup>31</sup> He added:

In regional Australia...we are still talking about a whole host of banking operations that are done across the counter. If you have had that taken away from you and you are a bit slow to pick up on the inert technology that can be quite daunting.<sup>32</sup>

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26 Dr David Morgan, CEDA Address, Committee for Economic Development of Australia, Sydney, 21 August 2001, p. 8.

27 Crookwell Shire Council, *Submission 57*, p. 2 and footnotes 28–32 below.

28 *Submission 125*, p. 2. See also Lockhart Shire Council, *Submission 25*, p. 2; Barossa Council, *Submission 15*, p. 2; Country Women’s Association of Australia, *Submission 73*, p. 1.

29 *Submission 75*, pp. 3–4.

30 See for example District Council of Robe, *Submission 30*, p. 2.

31 *Committee Hansard*, 14 November 2002, p. 46.

32 *Committee Hansard*, 14 November 2002, p. 47.

14.32 The Rosalie Shire Council, the Latrobe City Council, the West Tamar Council, and the East Gippsland Shire Council were not alone in calling for more and improved training programs and for the technology to be user friendly.<sup>33</sup>

### ***Building confidence in the use of new technology***

14.33 Without question, more attention needs to be given to education and training in the use of new technology. Such programs should go beyond the mechanics of enabling an individual to master the technology—they should be a means of engendering confidence in the system and providing motivation for people to take up the new technology. In other words, banks need to persuade their customers that firstly the new technology offers them real advantages and secondly that there is no mystery to the new technology and they will be able use it with confidence.

14.34 Mr Clinton Weber, CEO, Rosalie Shire Council, raised an important point about the approach of the banks to encourage their customers to embrace electronic banking. He noted that there is a difference between training so that people understand how to use a product and selling that product. In his view, ‘I see a lot of the selling but I do not see too much of the training.’<sup>34</sup>

14.35 Becoming a confident user of new technology takes time. The South Australian Country Women’s Association suggested that the expansion of banking facilities through non-traditional channels including new technologies must take place slowly as technologies that change too quickly are not handled well by people. They need time to accept and absorb the information.<sup>35</sup>

14.36 Along similar lines, the Latrobe City Council urged the banks to adopt a public relations approach and provide training sessions in rural and regional communities for the benefit of their clients.<sup>36</sup> Councillor Burgess told the Committee:

If the banks could take some sort of responsibility—even if they just put dummy teller machines in banks before they closed so that the senior citizens especially could have the chance to learn to use these machines—it would make a difference. It sounds like a very simple thing, but for someone who has never used this technology to have to suddenly start to use the likes of EFTPOS machines et cetera it is a very difficult thing. If banks were to provide some sort of serious training—and not just tokenism—for everybody which enabled people to come in to learn to use these machines

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33 *Submission 16*, p. 1; *Submission 38*, p. 10; *Submission 55*, p. 1; and *Submission 75*, p. 4.

34 *Committee Hansard*, 22 May 2003, p. 463.

35 *Submission 26*, p. 1.

36 *Submission 38*, p. 10.

over a period of time before they pulled their services out, I am sure the effect on communities would be less.<sup>37</sup>

14.37 The Catholic Women's League argued that the older generation at present is 'finding internet banking a steep learning curve, it would be in the banks' interest to hold classes in regional and rural areas on Internet banking to assist customers'.<sup>38</sup> Some, however, do not regard the problem as a straightforward training matter. Mrs Zerst, Secretary, Nanango Progressive Community Ltd, told the Committee that no amount of training is going to get the elderly or frail and elderly to 'even use an ATM, let alone use a computer, or even telephone banking'. She stated:

They just find it impossible. They really want to walk in somewhere and hand their passbook over and feel safe and secure.<sup>39</sup>

14.38 The Committee accepts that winning older Australians over to the side of new technology is a challenge but one that needs to be taken up in earnest. In some cases, local councils are stepping in to make up for the shortcomings in education and training. Mr Christopher Francis, City of Ballarat, told the Committee that his Council provided free tuition in computing for people but at a local level. He stated further:

I do not see the financial services people coming to us with \$50,000 to say, 'Let's help you out to educate the community about how to use our services'...Are we there to educate people about how to do their online banking? Once again, local government is being forced to take on a role which really we do not believe we should have.<sup>40</sup>

14.39 The Rosalie Shire Council provides another example of a council that has accepted the responsibility for providing both the equipment and the encouraging environment in which residents experiment with and gain confidence in using the Internet.<sup>41</sup>

14.40 The current code of banking practice recognises the needs of elderly or disabled customers to have access to transaction services and undertakes to take reasonable measures to enhance their access to those services. It, however, does not mention any commitment to the education of its customers.<sup>42</sup>

14.41 The Committee believes that the education of consumers in using and adapting to electronic and remote access channels is of paramount importance.

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37 *Committee Hansard*, 13 March 2003, pp. 432–33. See also the Country Women's Association of Western Australia, *Submission* 100, p. 1. It also noted the importance of having 'hands on instruction in the use of electronic services'.

38 *Submission* 70, p. 3.

39 *Committee Hansard*, 22 May 2003, p. 475.

40 *Committee Hansard*, 26 February 2003, p. 276.

41 Clinton Weber, *Committee Hansard*, 22 May 2003, p. 463.

42 Australian Bankers' Association, *Code of Banking Practice*, August 2002, para 6.

Clearly, the quality and level of education and training offered to consumers is falling short of expectations. The resounding message from local councils in particular is that the banks have failed to equip some of their customers with the skills and confidence needed to effectively use new technology. The evidence before the Committee suggests that the banks have not given attention to practical hands-on training where customers can experiment with new technology without fear of embarrassment or mistakes.

14.42 The Committee also is aware of the importance for customers to know that there is a safety net available if needed should they experience difficulties in using electronic banking. It believes that where a bank does not have staff readily available to offer their customers face-to-face service that they look carefully at devising methods that will compensate for this lack of direct contact. One of the first areas may be to explore ways to improve service delivery in the form of direct phone access to a help desk, keeping in mind the special needs of the elderly and the difficulties they may experience in navigating their way through the steps needed to complete a transaction. This means that assistance should go beyond helping a customer complete a transaction but is designed to reassure, encourage and educate customers in the use of new technology and should include with the customer's consent follow-up action by the bank to ensure the customer is managing electronic transactions.

14.43 As people age they become susceptible to poor health. Education and training cannot compensate for the difficulties in accessing electronic banking that accompany failing health, particularly poor eyesight and hearing. There is a heavy onus on those developing new technologies to take account of the special needs of the various sectors of the community when designing equipment and software.<sup>43</sup>

14.44 The Committee believes that promoting equitable access to financial services for all Australians is an important public policy goal. It notes that the banking industry is aware of the difficulties facing older Australians and people with a disability in accessing electronic banking and has taken the first step in formulating industry standards designed to make the use of electronic banking easier and safer for all. The development of these industry standards was covered in chapter 11. Similar standards have been developed governing telephone and internet banking.

14.45 In recommendation 12, the Committee urged all ADIs to place a high priority on ensuring that country people are not the last on the list to benefit from the implementation of these industry standards. It recommended further that the ABA monitor the implementation of the standards in regional Australia and make public its report on the initiatives to improve accessibility for older people in country Australia (see p. 180). The circumstances of older Australians in regional, rural and remote Australia underlines the importance of these recommendations.

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43 See Human Rights and Equal Opportunity Commission, Building bridges over the digital divide, [http://www.Hreoc.gov.au/disability\\_rights/inquiries/ecom/bridges.htm](http://www.Hreoc.gov.au/disability_rights/inquiries/ecom/bridges.htm) (30 October 2002).

14.46 The Committee accepts that older Australians living in rural, regional and remote Australia have special needs that over-the-counter services would address. It recognises, however, that face-to-face service is not going to be available in all areas. Easy and affordable access to the alternatives then becomes most important. The evidence shows that the banking industry could do more to assist their customers especially the older ones to adjust to changes in service delivery.

14.47 A multi-pronged approach should be taken by ADIs to improve people's understanding of the technology and how to use it.

### **Recommendation 18**

**The Committee recommends that ADIs:**

- **expedite the introduction of industry standards as recommended in chapter 11—standards have also been formulated for telephone and Internet banking;**
- **allow sufficient time for people to experiment with and become accustomed to the new technology and for the banks to monitor the transition so that adjustments can be made in light of any difficulties during this phase;**
- **offer hands-on training and education programs—the suggestion from the Latrobe City Council about the use of dummy machines is a practical and sensible idea and illustrates the range of options available to ADIs to explore in structuring programs to assist their customers adopt new ways of banking;**
- **work in close partnership with local community groups, particularly the local council, to implement strategies to entice older Australians to use modern technology when banking;**
- **provide education and training programs that focus not only on proficiency in using new technology but on confidence building in the technology itself; and**
- **ensure that there is on-going and easily accessible support to help people who may be struggling with the technology or loath to use it.**

### **Recommendation 19**

**The Committee recommends that the Australian Bankers' Association amend their current code of practice to include the commitment that banks will take all reasonable measures to educate customers on the use and benefits of accessing banking services through new technologies. Further, that the code will offer practical guidance on some of the measures that banks could take to ensure that they are effective in meeting this commitment. They could include examples taken from recommendation 18.**

14.48 The Government and the banking industry share the responsibility for the development and implementation of an educational framework that will encourage

people of all ages, from all walks of life and in all localities to use new technologies. This chapter has focused on the responsibility of the banking industry to ensure that their customers are well equipped to take advantage of new technology for their banking business. The following chapter continues this discussion but also looks at the role of government in improving the financial literacy of Australians. To do so, the Committee looks at another group in the community, Indigenous Australians, who experience particular problems in gaining adequate access to banking and financial services.





# CHAPTER 15

## INDIGENOUS AUSTRALIANS

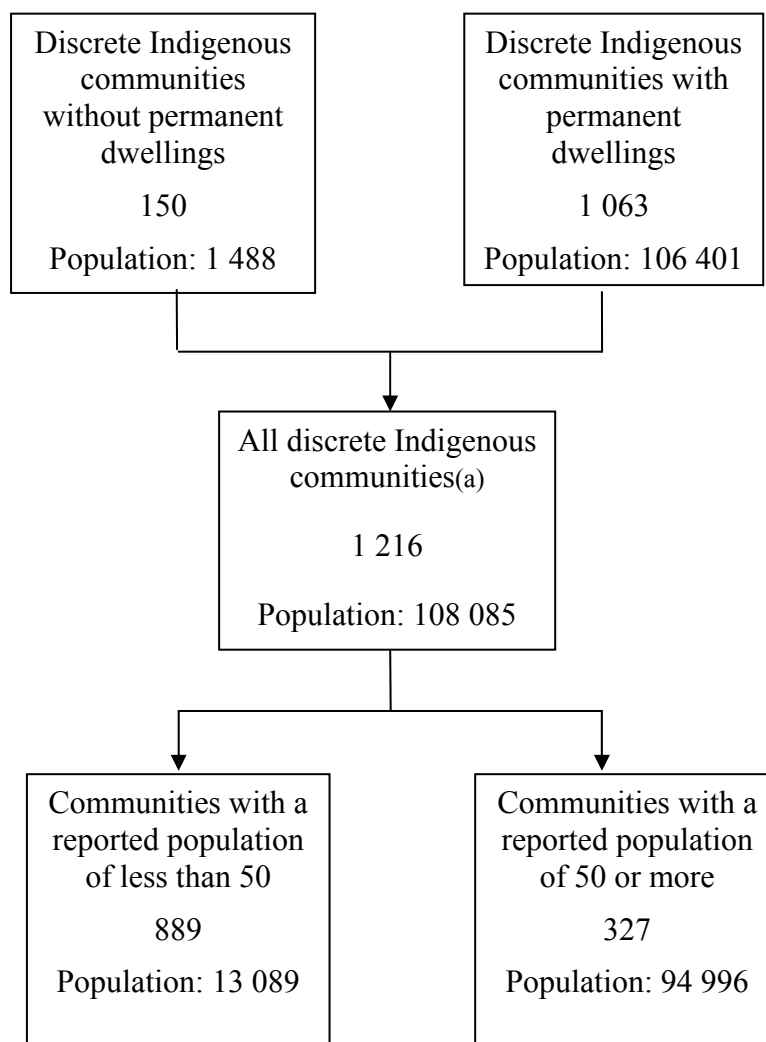
15.1 Indigenous people in regional and remote Australia are another group that experience particular difficulties gaining access to banking and financial services. Unlike older Australians, the problems derive mainly from the remoteness of the communities and the cultural gulf that exists between financial service providers and their Aboriginal customers.

### Indigenous communities in remote Australia

15.2 Indigenous people have a disproportionately high representation in regional and remote districts. Dr John Taylor informed the Committee that while Indigenous people comprise only 2.4 per cent of the population they make up more than 10 per cent of remote Australians.<sup>1</sup> In particular he cited the 1,200 or so discrete Indigenous communities of which over 1,000 were very small and very isolated communities.<sup>2</sup>

15.3 Statistics from the ABS presented in the following tables indicate the very significant number of Indigenous communities in remote and very remote areas of Australia. Slightly over half (52 per cent) of all discrete Indigenous communities are located in the Northern Territory with Western Australia accounting for the next highest proportion of 23 per cent.<sup>3</sup>

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- 1 At 30 June 2001, the estimated resident Indigenous population of Australia was 460,140, or 2.4% of the total estimated resident population of Australia. Australian Bureau of Statistics, *Population Distribution Aboriginal and Torres Strait Islander Australians, 2001*, p. 1. See also Australian Bureau of Statistics, *Australian Social Trends 2002*, Catalogue No. 4102.0, Commonwealth of Australia, Canberra, 2002, p. 55.
  - 2 The Aboriginal & Torres Strait Islander Commission, *New Solutions to Old Problems: Remote Indigenous Communications as Community Economic Development*, Canberra, September 2002 quotes figures of 108,000 people living in 1,216 Discrete Indigenous Communities of which 24 are located in major cities or inner regional areas. According to the ABS a total of 1,216 discrete Indigenous communities were enumerated in the 2001 CHINS. Of these, 1,030 (85%) were located in Very Remote regions of Australia, with only five communities being located in major cities. The total number of communities enumerated in the 2001 CHINS was 75 less than in the 1999 survey, predominantly as a result of communities that had a small population in 1999 being found to be unoccupied at the time of the 2001 CHINS enumeration and not expected to be reoccupied within the 12 months following the survey.
  - 3 Australian Bureau of Statistics, *Housing and Infrastructure in Aboriginal and Torres Strait Islander Communities*, Australia 2001, Catalogue No. 4710.0, Commonwealth of Australia, Canberra, 2002, p. 13. These figures change over time, a recent ABS publication recorded that 55% of remote Aboriginal and Torres Strait Islander communities were located in the Northern Territory, 24% in Western Australia and 12% in Queensland. Australian Bureau of Statistics, *Australian Social Trends 2002*, Catalogue No. 4102.0, Commonwealth of Australia, Canberra, 2002, p. 56.

**Table 15.1—Indigenous Discrete Communities<sup>4</sup>**

(a) Includes 'Whether community has permanent dwellings' not stated.

4 Australian Bureau of Statistics, *Housing and Infrastructure in Aboriginal and Torres Strait Islander Communities*, Australia 2001, Catalogue No. 4710.0, Commonwealth of Australia, Canberra, 2002, p. 12. These figures fluctuate over time. More recent figures record 1,139 remote Indigenous communities across Australia in 2001. Australian Bureau of Statistics, *Australian Social Trends 2002*, Catalogue No. 4102.0, Commonwealth of Australia, Canberra, 2002, p. 55.

**Table 15.2—Remoteness Area of Australia, all Communities and Reported Usual Population: 2001<sup>5</sup>**

	Population of Community						All communities	Reported usual population
	Less than 20	20-49	50-99	100-199	200 or more			
<b>Remoteness Area</b>								
Major Cities	-	-	1	3	1	5	645	
Inner Regional	-	1	7	5	6	19	2776	
Outer Regional	6	8	13	12	14	53	11838	
Remote	33	36	17	9	14	109	12146	
Very Remote	577	228	64	51	110	1030	80680	
<b>Australia</b>	<b>616</b>	<b>273</b>	<b>102</b>	<b>80</b>	<b>145</b>	<b>1216</b>	<b>108 085</b>	

15.4 This chapter considers the main barriers faced by Indigenous people in the more remote areas of Australia gaining access to banking and financial services. It examines a number of critical issues including:

- geographical isolation and the size of the communities which makes them unattractive prospects for financial institutions;
- obstacles to the effective use of modern technology such as
  - inadequate telecommunication infrastructure,
  - the costs of installing and maintaining equipment,
  - competency and confidence in using the technology;
- barriers to accessing existing services particularly
  - poor levels of education and literacy and financial skills,
  - cultural differences including language difficulties and lack of exposure to Australia's business and banking world; and

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5 Australian Bureau of Statistics, *Housing and Infrastructure in Aboriginal and Torres Strait Islander Communities*, Australia 2001, Catalogue No. 4710.0, Commonwealth of Australia, Canberra, 2002, p. 13.

- difficulties obtaining credit for home financing and home ownership and in attracting venture capital.

## Banking and financial services for Indigenous Australians

15.5 The 1,200 or so discrete Indigenous communities operate in very difficult circumstances usually far removed from commercial opportunities and viable labour markets. Because they face real diseconomies of isolation and are of small scale, the communities often lack some of the most basic services including banking and financial services.<sup>6</sup>

15.6 Effectively cut off from ready access to a range of services, many people living in remote Indigenous communities lack opportunities to improve their social and economic wellbeing. Professor Altman told the Committee:

The current reality is that Indigenous people are disproportionately represented in such regions, are generally relatively poor in cash income terms and are often welfare dependent. They almost invariably live in very small communities where there are often no consumer banking services and where individuals lack access to electronic and phone banking options that most Australians take for granted. Inevitably, absence of such basic services further marginalises people who are already among Australia's most economically vulnerable.<sup>7</sup>

15.7 Indeed, many studies support the findings that Indigenous Australians, especially among those living in rural and remote areas, are socioeconomically disadvantaged when compared to other Australians particularly in the principal areas of health, education and employment.<sup>8</sup> It should also be noted that there is no single Australian Aboriginal consumer, with over 230 different language groups in Australia.

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6 See also Aboriginal & Torres Strait Islander Commission, *New Solutions to Old Problems: Remote Indigenous Communications as Community Economic Development*, Canberra, September 2002, Introduction, p. 2.

7 See also *Generating finance for Indigenous development: economic realities and innovative options*, a paper for the Reconciliation Australia Ltd Workshop 'Banking and Financial Services for Indigenous Australians', Sydney, 8–9 May 2002, p. 4.

8 See for example, Australian Bureau of Statistics, *Australian Social Trends 2002, Education-Participation in Education: Education of Aboriginal and Torres Strait Islander Peoples*. In outlining the general socioeconomic and geographic circumstances of Indigenous Australia, Mr Stephen Oxley, Assistant Secretary, Office of Aboriginal and Torres Strait Islander Affairs, cited the very high unemployment rate, the low median individual weekly income which is even lower in the rural and remote areas of Australia, the greater proportion of single parent indigenous families, the larger family size and poorer levels of English literacy and numeracy. He provided the following statistics to the Committee: in February 2000—the unemployment rate was 17.6 per cent for Indigenous people and 7.3 per cent for non-Indigenous people...in 2001, the median individual weekly income for Indigenous people was \$231 compared with a non-Indigenous median of \$387. *Committee Hansard*, 12 November 2002, p. 14. See also Human Rights and Equal Opportunity Commission, *Emerging Themes*, National Inquiry into Rural and Remote Education, March 2000, pp. 57–67 and ABS, *Australian Social Trends 2000*,

15.8 Indigenous people in remote Australia require special attention to assist them overcome the disadvantages of isolation and the hardships they experience because of the lack of basic services. Reconciliation Australia explained:

Indigenous people, because of comparably low levels of financial and technological literacy, as well as low levels of education and English proficiency, have an even greater reliance on face-to-face services. It is no surprise, then, that one of the major demands of Indigenous people in relation to banking and financial services is that services be provided on a personal face-to-face basis.<sup>9</sup>

15.9 Yet, it is these very people who find access to banking and financial services most difficult.

15.10 It should be noted, as emphasised by Dr Taylor, that many of the remote Indigenous communities have never had banking.<sup>10</sup> He stated that of 1,200 communities, there are 854 with a population of fewer than 500 which do not have a store or an administrative building where facilities such as EFTPOS and ATMs could be housed. Their combined population totals almost 17,000 persons. So the current situation reflects not so much a withdrawal of services but an endeavor to have services in place for the first time. He asserted:

We are in the business not of trying to reverse a declining trend but of actually creating a trend.<sup>11</sup>

15.11 This point was reinforced by Ms Siobhan McDonnell, Reconciliation Australia, who stressed:

We are not talking about the removal of banking services from these remote communities; we are talking about the fact that there are no banking and financial services.<sup>12</sup>

15.12 The experiences of Aboriginal communities bear out the observations of Dr Taylor. The Gulin Gulin & Weemol Community Council Aboriginal Corporation maintained that for many people in its community the level of banking service was nil. A few people are able to access telephone banking services and the shop provides EFTPOS but with no cash out facility. Where possible, the Town Clerk assists people obtain bank balances or recent transaction information over the phone. Similarly, the Cape York Community Financial Project Ltd, noted that the changes taking place in

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Population—Population Characteristics: Socio-economic disadvantage across urban, rural and remote areas,  
<http://libas1.parl.net/abs/abs@.nsf/5e3ac7411e37881aca2568b0007afd16/b454091b9b>  
(3 January 2003).

9 *Submission* 120, p. 8.

10 See also Siobhan Mc Donnell, *Committee Hansard*, 1 November 2002, p. 93.

11 *Committee Hansard*, 14 November 2002, pp. 86 and 87.

12 *Committee Hansard*, 14 November 2002, p. 93.

the banking industry mean that 'Indigenous people's access to banking services has further diminished, and in many remote areas is non-existent'.<sup>13</sup>

15.13 Geographic isolation combined with the small size of the communities means higher costs and lower returns for financial institutions which discourages them from providing such a service. The Traditional Credit Union (TCU) outlined some of the expense incurred in reaching remote communities. Ms Bev McMillan, Assistant Manager of the TCU, told the Committee that equipment alone, with a connection to either satellite or ISDN, costs in the vicinity of \$60,000 for every branch.<sup>14</sup> She explained further:

Everything about the TCU is expensive. Our wage costs are high...Travel cost is a major item. We have to have permanent remote training staff to travel constantly to those communities to keep up the training. We probably spend \$100,000 a year on travelling and accommodation for remote and visiting staff. Because of the distance, our security risk is high and our insurance is high.<sup>15</sup>

15.14 The lack of a banking presence in Indigenous communities means that people from some areas must travel significant distances to access face-to-face banking. The 2001 Community Housing and Infrastructure Needs Survey showed there were only 58 (5%) discrete Indigenous communities reported to be located in towns that provided major services. The usual means of travel to the nearest town with major services for the remaining communities was by road (89%), with transportation by air or sea the most common means of travel for 11%. Of the 1,025 communities where the usual means of travel was by road, 37% estimated the time taken to travel to the nearest town with major services to be less than one hour, almost half (49%) reported a time between one and four hours, while 13% of these communities indicated it took five hours or more.<sup>16</sup>

15.15 Because of the difficulties in accessing over-the-counter services, a heavy reliance is then placed on alternative ways, such as electronic banking, to deliver banking services to Indigenous communities. But again distance and small markets present major hurdles in providing electronic banking services to remote and very remote areas.

## **Telecommunications infrastructure**

15.16 The Committee has already indicated that there is a pressing need for improvement in the delivery of telecommunications services to some areas of

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13 *Submission 8*, pp. 1–2; *Submission 47*, p. 5.

14 *Committee Hansard*, 21 July 2003, p. 528.

15 *Committee Hansard*, 21 July 2003, p. 529.

16 Australian Bureau of Statistics, *Housing and Infrastructure in Aboriginal and Torres Strait Islander Communities*, Australia 2001, Catalogue No. 4710.0, Commonwealth of Australia, Canberra, 2002, p. 24.

regional, rural and remote Australia. Chapter 12 dealt with the problems people in these areas have in obtaining physical access to the telecommunication network including the inadequacy of the existing infrastructure, delays with connection and repairs, unreliable service and slow speeds. These problems, however, are magnified in the more remote areas of Australia.<sup>17</sup>

15.17 The Regional Telecommunications Inquiry found that remote Indigenous communities remain the most disadvantaged telecommunications users in Australia and face unique difficulties in accessing adequate services. It maintained that these difficulties are closely linked with broader social disadvantages faced by these communities and that fully meeting their needs presents a long-term challenge requiring further funding in the future'.<sup>18</sup> ATSIIC also maintained that ongoing long term communications funding is needed.<sup>19</sup>

15.18 The Committee is also mindful of the magnitude of the problems in some Aboriginal communities where a breakdown in, or absence of, telecommunication links can effectively cut people off from their banking service.

15.19 Indigenous Australians in remote and very remote areas are likely to rely on the most elementary provision of banking services in the form of EFTPOS and ATMs. A rudimentary survey of major Indigenous communities in the Northern Territory highlighted their dependence on EFTPOS to deliver banking services. Comments from staff working with the communities noted that communications are totally dependent on optic fibre and if damaged, banking services are shut down (see appendix 5).

15.20 The same survey showed that very few remote communities have access to an ATM. Mr David Shoobridge, Town Clerk, Nauiyu Nambiyu Community Government Council, observed that banks are not anxious to provide ATMs to isolated areas given the problems of security of the machine and its contents and the high costs of

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17 See evidence *Committee Hansard*, 21 July 2003, p. 518. See in particular the evidence of Mrs Carol Perry, Perrys on the Daly River Pty Ltd, who has a satellite dish but not the power to run it. *Committee Hansard*, 21 July 2003, pp. 561–2.

18 Department of Communications, Information Technology and the Arts, *Connecting Regional Australia: the report of the Regional Telecommunications Inquiry*, Canberra, November 2002, p. 9. It stated: 'the Government has put in place a strategic and accepted framework to resolve the difficulties faced by remote Indigenous communities in accessing appropriate and affordable telecommunications services. The direction of the Telecommunications Action Plan for Remote Indigenous Community is supported as providing a holistic and well-targeted way forward. Significant funds are currently being applied to meet the needs of remote Indigenous communities, but fully meeting the needs of these communities presents a long-term challenge, and further funding will be required in the future.'

19 Aboriginal & Torres Strait Islander Commission, *New Solutions to Old Problems: Remote Indigenous Communications as Community Economic Development*, Canberra, September 2002, executive summary, p. d [4]. See also A. E. Daly, *Implications of development in telecommunications for Indigenous people in remote and rural Australia*, Centre for Aboriginal Economic Policy, Research, Paper 291/2001, the Australian National University, 2001.

servicing the equipment. Some communities do not even have an ATM or EFTPOS service and rely on the local store to cash cheques.

15.21 Ms Bev McMillan from the TCU told the Committee that phone banking would ‘form a very high part of our community education, because we can teach people to budget over the telephone so they have instant manipulation of their funds’.<sup>20</sup> But some communities are without public telephones. For example, statistics from the Australian Bureau of Statistics show that in 2001, of the 327 discrete Indigenous communities with a usual population of 50 or more, 93 (28%) reported that there were no public telephones in the community, a higher proportion than that reported in a 1999 survey (24%). Of the 230 communities that did have access to public telephones in 2001, the majority (62%) had access to one telephone while only 4% had four or more public telephones in the community.<sup>21</sup>

15.22 Of the larger communities, 80% had at least one public telephone within the community. A recent report found, however, that:

...these telephones can sometimes be located in community offices, or other places with restricted opening hours. Further, where telephones are available, these are not always in working order. In 16% of larger communities all of the public telephones were not working, while in a further 6% of larger communities some of the public telephones were not working.<sup>22</sup>

15.23 ATSIC expressed its deep concern at the lack of access to a public telephone and noted that discrete Indigenous communities consistently put provision of a working telephone as their highest priority.<sup>23</sup>

15.24 On 25 June 2003, the Government accepted the recommendations made by the Regional Telecommunications Inquiry to improve telecommunications services to

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20 *Committee Hansard*, 21 July 2003, p. 533.

21 Australian Bureau of Statistics, *Housing and Infrastructure in Aboriginal and Torres Strait Islander Communities*, Australia 2001, Catalogue No. 4710.0, Commonwealth of Australia, Canberra, 2002, p. 26. The survey also showed that no organised electricity supply was reported for 7% of communities in the 2001 Community Housing and Infrastructure Needs Survey. The 80 communities this represents all had a reported usual population of less than 100 persons with the majority (85%) reporting a usual population of 20 or less. A total of 681 (0.6%) people were reported to be living in communities without an organised source of electricity. A further 68 (6%) communities with permanent dwellings reported having an electricity supply, but with one or more permanent dwellings which were not connected. See pp. 19–20.

22 Australian Bureau of Statistics, *Australian Social Trends*, Catalogue No. 4102.0, Canberra, 2003, p. 59.

23 Aboriginal & Torres Strait Islander Commission, *New Solutions to Old Problems: Remote Indigenous Communications as Community Economic Development*, Canberra, September 2002, p.d [ 4] and Professor Altman, *Committee Hansard*, 14 November 2002, p. 86.



Indigenous communities. (See appendix 7). It undertook, inter alia, to work with Telstra to ensure that Telstra:

- fulfils its obligation to provide pay phones under the universal service obligation (USO),<sup>24</sup> and
- improves delivery of USO services to remote Indigenous communities, including the deployment of specialised call centre staff and Indigenous liaison officers.<sup>25</sup>

15.25 Solving this problem of access to telephone services is a priority even before consideration is given to ensuring that other services such as internet access is available.<sup>26</sup> In turning to the internet, Mr Oxley noted that the 2001 census showed that for any age group non-Indigenous people are between two and three times as likely as Indigenous people to use a computer at home. The typically lower income levels of Indigenous people are a significant barrier to investment in purchasing and installing computer equipment. Note that the costs associated with using the Internet were identified as a major obstacle to the use of the Internet (see table 12.5.)

### ***Committee's view—telecommunications***

15.26 The Committee understands that providing telecommunications services comparable to those delivered in the cities to people in remote districts of Australia is not a viable economic proposition. It endorses the findings of the Regional Telecommunications Inquiry that continuing Government support and action will be required to resolve fully the inadequacies in the provision of telecommunications services to remote Indigenous communities.<sup>27</sup> It fully supports the Government's undertaking to ensure that basic telecommunications infrastructure is available to remote communities. It notes here, however, that gaining access to basic telecommunication services in remote parts of Australia presents an enormous problem for remote Indigenous communities and will require long-term funding. It further accepts the need for a coordinated and targeted approach to providing ongoing and affordable access to telecommunication services for those living in the remote areas of Australia.

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24 Through \$8.3 million Telecommunications Action Plan for Remote Indigenous Communities (TAPRIC) program, the Government will offer community phones to remote indigenous communities currently without access to telecommunications services.

25 The Government's response to the recommendations of the Regional Telecommunications Inquiry, [http://www.dcita.gov.au/Printer\\_Friendly/0,,0\\_1-2\\_3-4\\_115483-LIVE\\_1,00html](http://www.dcita.gov.au/Printer_Friendly/0,,0_1-2_3-4_115483-LIVE_1,00html) (1 July 2003) See also appendix 7.

26 Joseph Elu, *Committee Hansard*, 14 November 2002, p. 101. Mr Elu told the Committee that 'computer outlets on those islands [Torres Strait Islands] or in those communities are basically non-existent.'

27 Department of Communications, Information Technology and the Arts, *Connecting regional Australia*; the report of the Regional Telecommunications Inquiry, Canberra, November 2002, p. 3.

15.27 Even with improvements to the delivery of telecommunications services, technology will not overcome many of the problems associated with accessing banking services by Indigenous people in remote Australia. Leaving aside the physical barriers to using electronic banking such as inadequate infrastructure and costs of equipment and connecting to the network, the following section looks at some of the practical problems associated with using electronic banking in Aboriginal communities. It discusses impediments such as the level of financial literacy, competency and confidence in using new technology.

### **Competency and confidence in using new technology**

15.28 Electronic banking offers many advantages for people living in remote communities. The Nauiyu Nambiyu Community Government Council noted the commercial benefits that have allowed the Council to carry out banking transactions 'without undue problem'. It stated, 'information is readily available and generally banking practices are such that isolation is no longer a deterrent to successful banking'. Although organisations such as local councils are effectively adopting on-line banking, individual residents are finding difficulties with personal banking.

15.29 For Indigenous Australians the obstacles to using banking services are many and varied and, while some in themselves appear to be small, taken together they present a formidable barrier. The Nauiyu Nambiyu Community Government Council cited some of the difficulties faced by Indigenous people in being able to access banking services:

...most people in this community have some form of either a debit or credit card. Pensions and other payments are paid directly to these accounts. However often these cards are lost and then problems of cancellation and replacement of PIN numbers become an issue. Many banks require the card holder to attend a bank in person to claim their card and PIN. While this is seen as a necessary prerequisite for security purposes, it can create problems, especially when many people do not have access to private transport.<sup>28</sup>

15.30 The Gulin Gulin & Weemol Community Council Aboriginal Corporation identified other problems. It noted that some Indigenous people do not appreciate the significance of passwords and security information while the provisions of the Privacy Act make telephone access difficult because a lot of people do not know their date of birth. Mr Richard Barcham, Town Clerk, stated:

I have considered trying to set people up with Internet banking accounts that would allow them to pay bills, transfer funds, and check balances. This may become possible over time using the two-way set capability, but the initial hurdle of identification and passwords will have to be overcome somehow. For most people this means a trip into Katherine to visit a branch and be

identified. Apart from the \$1.35/lit fuel cost, few community members own suitable vehicles.<sup>29</sup>

15.31 Ms Siobhan McDonnell listed the main problems encountered by Indigenous people in using electronic banking which include:

- understanding how to obtain a key card;
- understanding how to replace lost or damaged key cards;
- understanding how to obtain a new pin number;
- securing key cards and key cards breaking;
- remembering PIN numbers;
- using ATMs;
- accessing and understanding bank balances; and
- understanding bank fees and how to minimise them.<sup>30</sup>

15.32 While these problems in part may stem from a lack of familiarity with the technology and a poor appreciation of the processes involved in using an ATM or EFTPOS, they originate from a deeper cause—lack of financial literacy and cultural differences.

### **Financial literacy**

15.33 Professor Altman told the Committee that a disproportionate number of Indigenous adults have never been to school resulting in problems with literacy and numeracy which then translates into difficulties with financial literacy and numeracy.

15.34 Without face-to-face banking those who have difficulty with literacy face problems in effectively making use of the facilities. The Department of Community and Family Services cited the example of people from some of the outlying Aboriginal camps around Alice Springs where the numeracy rate can be ‘so low that a person might not know even the denomination of a note’.<sup>31</sup>

15.35 This lack of understanding and awareness of how the banking system works puts Indigenous people at risk of engaging in unwise banking activity or entering arrangements that are highly unsuitable for their particular circumstances. One of the problems of major concern to the Committee was the ability of card holders to overdraw their account and thereby unwittingly incur an additional and sometimes heavy fee.

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29 *Submission 8*, p. 2.

30 S. McDonnell, *Chasing the money story*, An evaluation of the Tangentyere Bank Pilot Project and its relevance to Indigenous communities in central Australia, Centre for Aboriginal Economic Policy Research, The Australian National University, Canberra, 2003, p. 3.

31 Barry Smith, *Committee Hansard*, 12 November 2002, p. 36.

15.36 As noted earlier, the survey by the Northern Territory Government showed that a number of Indigenous communities rely solely on EFTPOS to deliver banking services to their community (see paras 15.19–20). This survey recorded, however, that customers are unable to check account balances and cheaply send or transfer funds. Evidence indicated that customers unable to obtain their account balance are placed in a situation where they may withdraw amounts exceeding the balances available in their account and incur substantial fees.

15.37 Mr David Shoobridge from the Daly River Community said that people not sure of their account balances would swipe their cards to make a withdrawal and, having the transaction rejected because of insufficient funds, would keep swiping and reducing the sum to be withdrawn until the transaction was approved. He said that sometimes people could make 10 to 15 attempts with each costing them a transaction fee of \$1.25 before a withdrawal was approved.<sup>32</sup>

15.38 Aware of this practice of people swiping their keycard to check their account balance, the Tangentyere Council decided against providing an EFTPOS service to the community. Mr Patrick McDonald explained:

The issue that stopped us was that people really need to be able to see their account balances, and there was no EFTPOS technology available which would have shown account balances. We were worried that people would come in with a keycard, swipe it, ask for \$100 and there would not be sufficient funds, so they would swipe it again, ask for \$60 and there would not be sufficient funds, so they would ask for \$20—until you found out that there was actually no money available. We were worried that, if people could not see their account balance, they would keep trying and that time would be lost in that way.<sup>33</sup>

15.39 The Town Clerk at the remote community of Palumpa also raised concerns that members of his community were overdrawing on their accounts and paying for it. He noted that ‘with limited access and even more limited internet access residents are hard pressed to know they are overdrawn’.<sup>34</sup>

15.40 Taking a broader look at the problem of overdrawn accounts, Ms McDonnell explained:

...some of the types of accounts that people are signed on to with a card have what is almost an overdraft facility built into them so that you can go beyond the amount of money that goes into the card. Out on a remote community if there is only EFTPOS a lot of people will just use that card

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32 *Committee Hansard*, 21 July 2003, p. 553.

33 *Committee Hansard*, 22 July 2003, p. 589. See also *Committee Hansard*, 22 July 2003, p. 581, where Mr McDonald stated that people depending on their welfare payment ‘might be expecting it on a certain day and might swipe regularly, waiting for it to come in. They might swipe their cards 10 times in a morning, waiting for it to come in’.

34 *Committee Hansard*, 21 July 2003, p. 563.

until it runs out of money, so they will be using the overdraft facility possibly without even knowing that it is there. And the fees that are charged on top of that are phenomenal—it is a \$35 or \$45 fee. If you have a welfare payment of \$200 or \$240 and you have \$45 taken out of that, instantly you can see the kinds of problems that is creating. Some of the banks in Central Australia have acknowledged that problem and are beginning to look at it, but it is a considerable problem.<sup>35</sup>

15.41 Although largely anecdotal, evidence presented to this Committee suggested that it was not uncommon for people on low fixed incomes to incur high banking fees for overdrawing on their account. In some cases, bank practices encouraged imprudent behaviour by their customers. As noted earlier, EFTPOS is the only service available to many remote Indigenous communities but this service does not provide an account balance. This exposes people to the risk of overdrawing on their account and incurring a fee.

### Safety net banking account

15.42 The banking industry supports the concept of a basic bank account and for a number of years the major banks have offered concessional accounts for disadvantaged and/or elderly people.<sup>36</sup>

15.43 The current Code of Banking Practice states that:

If **you** tell **us** that you are a low income earner or a disadvantaged person (regardless of whether **you** are an existing or prospective customer but not if you are a **small business**), we will provide **you** with details of accounts which may be suitable to **your** needs. **We** will also do this if you ask for this information or if, in the course of dealing personally with **you**, **we** become aware that **you** are in receipt of Centrelink or like benefits.<sup>37</sup>

The Committee believes that to ensure that customers are aware of this product, the banks undertake to promote and more actively disseminate information to their customers about this account.

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35 *Committee Hansard*, 14 November 2002, p. 94. Professor Altman echoed the same concern: ‘Often, when Indigenous people do the shopping and swipe their card for EFTPOS, they are told they have not got the money to pay for what is there. This is where you end up with people either booking up or else returning things to the shelf until they are in a position to actually afford to pay for things with the credit that is on their card. One should not get too emotive about this—sometimes it is embarrassing and sometimes people just see it as their modus operandi—but it seems to me that we must have better ways to assist people to access their cash incomes than having them go through those sorts of processes’. *Committee Hansard*, 14 November 2002, p. 85.

36 Australian Bankers’ Association, Chairman, Media Release, 23 May 2001.

37 Australian Bankers’ Association, *Code of Banking Practice*, August 2002, para 14, p. 8.

15.44 In March 2001, the ABA announced that it had developed minimum standards for a safety net basic bank account.<sup>38</sup> It applied to the ACCC for authorisation that would allow 10 banks to collectively agree to offer a basic bank account with agreed minimum features.<sup>39</sup> On 16 December 2002, however, the ACCC announced its intention to deny the authorisation because of its concern about adverse effects on competition. It stated that the majority of basic banking products available already provided a higher number of fee-free transactions and satisfied several of the other features proposed under the basic bank account initiative'. The ACCC noted that:

Consumer groups pointed to the relatively small number of fee-free transactions provided under the proposal, the fact that balance inquiries will be counted as part of the six-fee-free transactions and the level of dishonour and/or account overdrawn fees which would be applied to basic banking products.<sup>40</sup>

Indeed, Ms Louise Petschler from the Australian Consumers Association described the ABA's proposed safety net account as a 'bare bones standard that offers less than the average transaction levels the ABA itself uses (10–20 a month)'.<sup>41</sup>

Following the release of the ACCC's draft decision, the ABA withdrew its application.

### ***Committee's view***

15.45 The Committee was disturbed to learn of practices that expose Indigenous Australians on low fixed incomes to unwarranted and unnecessary fees. It believes that financial institutions have an obligation to ensure that the interests of such

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38 Australian Bankers' Association, News Conference Speech, 28 March 2001. The benchmarks were—no account keeping fees; six free non-deposit transactions per month including three over the counter withdrawals; unlimited free deposits; and no requirement for a minimum balance.

39 Australian Bankers' Association, Media Release 'ACCC's Rejection of Basic Bank Account Disadvantages Bank Customers', 16 December 2001. The ABA asserted that the basic bank account standards were designed 'to create a floor or safety net of minimum standards to which all of the ten applicant banks would adhere'. The banks were to offer minimum features to holders of a health card, senior's card and/or pensioner card and included:

- No account keeping fees;
- No minimum monthly or opening balances;
- An unlimited number of fee-free deposits; and
- Six fee-free non deposit transaction (which includes up to three over-the-counter withdrawals).

40 Australian Competition and Consumer Commission, Press Release, 'ACCC Rejects Basic Bank Account Agreement Proposal: Does Not Go Far Enough', 16 December 2002.

41 Louise Petschler, 'Banks to basics', *Consuming Interest*, Winter 2001, p. 10. Louise Petschler stated further that the account 'offered no major improvement on existing accounts, no promises on fee levels once consumers are over their six transactions, and no commitment to fee restraint generally'.

customers are not put at risk. Clearly, financial services providers need to be aware of their customers needs and to be vigilant in protecting their interests. This requirement applies not only to the providers but also the community itself, to the ABA and to the regulators ACCC and ASIC.

15.46 The ABA advised the Committee that it would not be re-applying to the ACCC for authorisation for an industry standard basic bank account ‘as there are already a number of competing products in the market that may be suitable for consumers.’<sup>42</sup>

15.47 The Committee notes with disappointment the failure of the ABA to succeed with its proposal before the ACCC. The Committee would welcome the banking industry formulating and submitting a new proposal taking account of the concerns of ACCC and the views of consumer groups.

### **Recommendation 20**

**The Committee recommends that the banking industry formulate a safety net basic bank account that addresses the concerns of the ACCC and consumer groups and again seeks authorisation from the ACCC. In particular, the new proposal, while retaining some features of the earlier proposal such as no account keeping fees, would improve on it by offering more non-deposit, fee-free transactions and also include safeguards that would:**

- **eliminate fees for bank balance inquiries; and**
- **not provide an overdraft facility.**

**The Committee recommends further (and assuming that the ACCC’s authorisation is forthcoming) that the banks notify their customers of the availability of the safety net account in literature sent to customers and by displaying the relevant information in a prominent position in every bank outlet.**

The Committee acknowledges that many ADIs already make available a basic account for concession card holders. It welcomes the introduction of such measures but believes that they could be improved.

### **Recommendation 21**

**The Committee acknowledges that some ADIs already make available a basic bank account to better suit the needs of low income earners. It recommends, however, that they extend the benefits offered by the account. The Committee recommends that individual ADIs make available to their customers, who are concessional card holders and low income earners, a safety net basic bank account which includes measures outlined in the previous recommendation. Further, in line with the previous recommendation, ADIs notify their customers that such an account is available.**

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42 *Supplementary Submission 117*, p. 21.

## Recommendation 22

**The Committee recommends that the banking industry urgently investigate expanding the services offered through EFTPOS to enable a customer to access information on their account balance during a transaction.**

### Book up

15.48 Indigenous Australians, isolated from banking and financial services and with lower levels of financial literacy, are susceptible to exploitation. Practices associated with book-up, a form of store credit, were identified as causing particular hardships for consumers.<sup>43</sup> The Northern Territory Government stated:

Indigenous people can easily become a captive market for retail providers such as pubs, taxi drivers, stores, hawkers, etc. There is evidence, for example, of exploitative practices involving merchants acquiring plastic cards and PIN numbers.<sup>44</sup>

15.49 Professor Altman asserted that their lack of financial literacy probably leaves Indigenous people ‘vulnerable to being exploited—for instance, with unreasonable service fees or being required to spend a certain amount at a store when they make a transaction through EFTPOS’.<sup>45</sup>

15.50 Ms McMillan highlighted the difficulties for indigenous people to balance a budget if they are ‘booked-up’. She explained:

They are usually allowed to book up to the maximum of their income, so as soon as their funds come in they are gone straightaway. Another problem with the book-up system is that people hold their EFTPOS cards and take their money. Of course, they are not allowed to take all their money. If somebody has a debt with you. I believe that the law says you can take 10 per cent of their income to repay that debt, but they take 100 per cent. But worse than that, they try six times a day, every day of the week, to get the people’s money out of their accounts, so they are incurring fee charges that you would not believe.<sup>46</sup>

15.51 Mr Shacklady from the Tangentyere Council described much the same situation where the amount due under book up is usually more than the next

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43 Gordon Renouf, ‘*Book Up*’ *Some Consumer Problems*, A Report prepared for the Australian Securities and Investments Commission, March 2002, p. 49. ASIC described book up as a term used for store credit which is common in regional and remote Australia. ‘Book up’ (or ‘book down’) involves a trader offering small amounts of short-term credit to individuals. Typical traders are stores, taxi drivers, hawkers and regional airlines’. ASIC, ‘*Book up*’ *Some Consumer Problems*, A report prepared for the Australian Securities and Investments Commission by Gordon Renouf, March 2002, p. 1.

44 *Submission* 128, p. 5.

45 *Committee Hansard*, 14 November 2002, p. 85.

46 *Committee Hansard*, 21 July 2003, p. 531.



Centrelink payment. He stated, 'if it is \$500 or \$600 and the cheque comes in, they never get to see the money because they say "well, he's chasing his tail with the book up system"' .<sup>47</sup>

15.52 Without literacy and numeracy skills and lacking exposure to and comprehension of the business world and how it operates, Indigenous Australians are poorly placed to take care of their financial affairs and defend their rights. Ms McDonnell noted that some people who have been treated inappropriately are not making complaints partly because they are unaware of their consumer rights. She informed the Committee:

I have just done a series of surveys in Todd Street Mall in Alice Springs asking people about the kind of fees that are charged on their accounts, only to have to sit back and explain to people what fees are. A level of financial literacy just does not exist.<sup>48</sup>

15.53 Mr Neil Westbury, former General Manager of Reconciliation Australia and visiting fellow at the Australian National University, told the Committee that he was aware of an instance where ACCC had tried to bring a case against a proprietor in Central Australia but had difficulty in being able to compile evidence and secure witnesses who were prepared to appear. He told the Committee:

One of the difficulties, because in many cases these are closed communities and people living there are relying on one shop and one store owner or station manager, is having people who are prepared to go out on a limb and give evidence that is sometimes really not in their best interests nor in the best interests of other community members in these areas.<sup>49</sup>

15.54 He also noted that there are communities where the store keeper is 'as honest as the day is long' and who provides 'a critically important service to people'.<sup>50</sup> Mr McDonald also acknowledged that book up may be the only financial service available to people to manage their finances throughout a fortnight, even if it leads to exploitation. He stated that 'If those practices are thwarted, people are left without any financial services'.

15.55 Education and familiarity with the financial system will help Indigenous Australians make informed choices. Nonetheless, safeguards should be in place to ensure that they are not subject to unscrupulous conduct. Indeed, such measures should go further to guarantee that their interests are promoted.

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47 *Committee Hansard*, 22 July 2003, p. 586. Mr Acfield drew from his experiences in Western Australia 'I worked for another remote community organisation in Western Australia and there is a lot of evidence of Aboriginal people being ripped off by storekeepers and so on in the transaction process'. *Committee Hansard*, 22 July 2003, p. 586.

48 *Committee Hansard*, 14 November 2002, p. 99.

49 *Committee Hansard*, 21 July 2003, p. 548.

50 *Committee Hansard*, 21 July 2003, p. 548.

15.56 Mr Neil Westbury suggested as a long-term solution ‘vigilance on the part of regulators’ and successfully establishing a test case which would send a clear message to wrongdoers.<sup>51</sup> He mentioned the attempt by the ACCC to curb improper conduct associated with book up practices by promoting ethical behaviour through its store charter arrangements. Mr Westbury was of the view that it had not been successful because the people who signed up to the code were ‘ethical anyway’.<sup>52</sup>

### **Recommendation 23**

**The Committee recommends that ASIC investigate practices associated with book up in an effort to identify and curb unscrupulous conduct. The Committee is aware that some retailers who use book up are providing a much-needed service to some communities. It has no wish to see regulation prevent them from providing this service. It does, however, want to see the abuse of the system stopped.**

15.57 Some financial institutions are taking their duty of care seriously. In regard to book up, the TCU told the Committee:

One of the beauties of TCU is that because we are small and really care for our members, when we notice that accounts are getting used by certain bodies outside the community, we cancel the cards and advise the people that we have cancelled their cards, because it is misuse under our conditions.<sup>53</sup>

15.58 In this regard the Committee acknowledges the work of the TCU and urges financial institutions to review their approach to providing services to Indigenous Australians with a view to helping their customers make informed choices and minimise their exposure to risk.

### **Education and training**

15.59 For self-service banking to work to the advantage of Indigenous Australians, they need to be equipped with the skills and understanding to make effective use of new technology. The report has highlighted the failings in the provision of education and training in financial services for all Australians, especially those living in regional, rural and remote Australia. These shortcomings are magnified for Indigenous people who face particular hardships and, as noted earlier, are vulnerable to exploitation. Again education and training must go beyond merely equipping customers to complete a basic banking transaction.

15.60 A number of witnesses made the point that people with low literacy and numeracy rates and unfamiliar with new technology need to be allowed to acquire the

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51 *Committee Hansard*, 21 July 2003, p. 549.

52 *Committee Hansard*, 21 July 2003, p. 549.

53 *Committee Hansard*, 21 July 2003, p. 532.

skills and confidence gradually through individual assistance. The Nauiyu Nambiyu Community Government Council suggested that some form of public education campaign be considered that would encourage people to consider future personal needs. This could include work on personal budgeting, use of funds and on finance institutions and their approach to lending.<sup>54</sup>

15.61 Mr Joseph Elu, Director, Reconciliation Australia, referred to the banking association in Canada which has gone into the schools. He stated:

Hence my argument about getting ABA to try and foster banking and financial education through the normal schooling curriculum, which has happened in Canada. It was an initiative of the banks. They funded it, they put a lady educator into their ABA to write a curriculum which they then gave back to the education department to put through their schools for Indigenous kids at first, but now they are using it for everybody in Canada.<sup>55</sup>

15.62 Mr Westbury also drew comparisons in the approach to education between Canada and Australia. He stated:

The Canadian Bankers Association, with the joint support of all major banking institutions in Canada, fund an enormous financial literacy and training program right across Canada. They are engaging ex-bank managers, retired bank managers, and people with experience in the sector to come in and deliver the courses in various guises in both schools and communities. They have specific units that are designed to be delivered in first nation communities. That is a quite significant undertaking. They see that as a long-term investment, even in those areas that they might not necessarily service now; they see them as customers in the future.

That has not been matched by anything here in Australia, although certainly the Westpac investment in the Cape is most commendable.<sup>56</sup>

15.63 It should be noted that the endeavour to improve the financial literacy of Indigenous people should be viewed against the background of the broader problems with Indigenous education. The ABS found that:

In 2000, a smaller proportion of indigenous students achieved the Year 3 reading benchmark compared with all students who were tested. Results for Indigenous students were substantially lower in most States, most notably in the Northern Territory, where 26% of Indigenous Year 3 students achieved the benchmark compared with 65% of all students. This may in part be

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54 *Submission 5*, p. 2.

55 *Committee Hansard*, 14 November 2002, p. 98.

56 *Committee Hansard*, 21 July 2003, pp. 541–2.

attributable to the fact that English is a second language for some Indigenous students, particularly those in remote areas.<sup>57</sup>

15.64 It noted further that in 2001 Indigenous students were less likely than all students to stay at school beyond the compulsory years. Mrs Leanne Birch from the Tangentyere Council informed the Committee that they have difficulties getting their younger children to attend school so that they have older people who can read and write but younger ones who can not.<sup>58</sup>

15.65 Education in the formal school setting is only one aspect of an approach that should also involve adult and community education. The first step is to equip Indigenous Australians in remote communities with the basic skills needed to undertake a straightforward banking transaction such as withdrawal from an ATM. The next challenge is to build on these basic skills to assist Indigenous Australians manage their personal finances.<sup>59</sup>

15.66 A number of programs have been initiated in the Northern Territory to work toward this goal. According to Mr John Gardiner, some two or three years ago, the Northern Territory Government and the Commonwealth Government worked with the Traditional Credit Union to promote a series of community development programs centred around the operation of a credit union. It dealt with the use of EFTPOS cards and family budgeting and formulated staff modules. Although popular and successful, the program lasted only two years.

15.67 The Tangentyere Council also developed an education program as part of a pilot project which concentrated on teaching banking fundamentals such as opening accounts to ensure that people received their payments. Mr McDonald explained:

In the process of doing that, we found that we had to explain to people how bank accounts worked and why they were needed. We would also explain to people how ATMs and keycards worked, and the benefits, and we would give them the opportunity to order one if they wanted to use one. We explained to them how they could cope with losing keycards and reordering new ones, the importance of not giving out your PIN and those sorts of things. We also explained how the new food voucher system was going to work and what it would mean. We had picture based booklets prepared to

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57 Australian Bureau of Statistics, *Australian Social Trends 2002*, Education—Participation in Education: Education of Aboriginal and Torres Strait Islander Peoples.

58 *Committee Hansard*, 22 July 2003, p. 582. See also Human Rights and Equal Opportunity Commission, *Emerging Themes*, National Inquiry into Rural and Remote Education, March 2000, pp. 57–67. The Commission found that in many parts of Australia Indigenous people—adults and children alike—have become alienated from the school system’, p. 57.

59 The Bank of Montreal provides practical examples of how it went about encouraging Aboriginal communities to embrace electronic banking. The focus was on drawing on people from within the community to provide personal assistance to members of the community. In one case the bank hired a respected aboriginal man in the community to be the ‘elder adviser on operation of the ATM’. Ron Jamieson, Bank of Montreal, Indigenous Banking dinner speech.

help people through that process, to explain it to them. Also we gave people training in using the ATM.<sup>60</sup>

15.68 Illustrations taken from this booklet are reproduced in the following chapter and show the very basic level of skill that the project hoped to develop in the community. The project did not reach the stage of providing budgeting skills, including numeracy skills. According to Mr McDonald that type of training has not been started and there is much groundwork to be done before they can provide people with opportunities to develop numeracy skills.<sup>61</sup>

15.69 The Department of Family and Community Services have also run a family income management program with the support of Westpac. The programs have highlighted the importance of matching the program to the community's needs and of the community's acceptance of the program. Indigenous communities are diverse and, as noted earlier, over 320 languages are spoken. Mr Mark Nolen noted that 'Unless you get them fully involved and they own the system and feel they are part of it, it will not work'. A lot of time is spent sitting down with people.<sup>62</sup>

15.70 The Committee acknowledges the success of a number of pilot education programs that have been tested in the Northern Territory. To date, however, they do not appear to be part of a concerted and broader strategy to educate people in financial matters. Their energies have concentrated on equipping Indigenous people with the basic skills and understanding to access their account and to manage a two-weekly budget. The Committee looks closely at these programs in the following chapter.

15.71 At this stage of the report, the Committee is interested in the role of governments and the banking industry in promoting financial literacy in Indigenous communities.

15.72 The Committee appreciates that the implementation of any education program needs to take a multi-pronged approach aimed at equipping both young and adult Indigenous Australians with basic literacy and numeracy skills, as well as providing them with practical experience in using banking services including telephone and internet banking. It also recognises the importance for Indigenous people to have the skills to manage their money matters and to have some understanding of how the banking world operates.

15.73 The Committee believes there is an urgent need for a long-term targeted program that will build on the work already undertaken. Of primary importance is to determine an overall understanding of the levels of financial literacy in Indigenous communities and to identify the areas of deficiency.

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60 *Committee Hansard*, 22 July 2003, p. 578.

61 *Committee Hansard*, 22 July 2003, p. 578.

62 *Committee Hansard*, 21 July 2003, p. 517.

15.74 The basic survey undertaken by the Northern Territory's Department of Community Development provided some vital information about the provision of banking and financial services to remote Indigenous communities but it also highlighted the need for a more comprehensive assessment (see appendix 5). Mr John Gardiner from the Department submitted:

...entry into that field has to be done after fairly well-disciplined survey and study to find out what the communities' aspirations are so as to develop a service along those lines and also after observing what is working and finding out how that can be improved. That type of survey, I suggest, has never really been done in the Territory.<sup>63</sup>

15.75 It would appear that the number of trials and pilot programs that have been undertaken to improve access to banking services have not been part of a broader strategic approach to improve financial literacy among Indigenous people. The Committee suggests that any Government program or funding for Indigenous communities be developed as part of a broader policy framework that is intended to improve the economic and social wellbeing of Indigenous Australians.

15.76 The most pressing need is to have in place practical and workable solutions to assist Indigenous Australians manage their money. Measures such as the weekly welfare payments, Centrepay and direct crediting of payments into clients accounts are important initiatives that help Indigenous people access their payments and arrange their money affairs. However, they are mere stopgap measures if Indigenous people do not have the education and training to take advantage of these measures. It accepts that education and training programs are labour intensive and have much more to accomplish if Indigenous Australians are to achieve a level of financial literacy that would enable them to achieve economic independence.

#### **Recommendation 24**

**The Committee recommends that rather than continue with the piecemeal approach to the education of Indigenous Australians in financial literacy that the Australian Government work with the state governments to ensure that financial literacy and money management form part of the core school curriculum starting from the earliest years of primary education and carrying through to the secondary years of formal education and to adult education programs.**

#### **Recommendation 25**

**The Committee recommends that the Government provide funding for an employment incentive and professional development scheme to assist financial institutions, such as the Traditional Credit Union, provide employment and educational opportunities for Indigenous people in the financial services sector. Such a program could build on a number of Commonwealth projects in existence designed to assist indigenous people find employment and to upgrade their skills.**

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63 *Committee Hansard*, 21 July 2003, p. 520.

**The program, however, would be specifically targeted to encourage Indigenous people to pursue a career in the financial services sector. The program would be of benefit not only to individuals but to Indigenous communities where there is a need to have people who understand how Australia's banking and financial services industry works.**

### **Recommendation 26**

**The Committee recommends that the banking industry take a far more active and constructive role in improving the level of financial literacy for all Australians but particularly among Australia's Indigenous people. It recommends that the ABA examine closely the work being undertaken in Canada by the Canadian Bankers' Association with a view to adopting similar practices.**

15.77 The ABA has committed itself to working with government and other stakeholders to explore options for addressing the problems of access to banking services for the 32 towns identified in a survey commissioned by the ABA as having no over-the-counter banking service. All towns are located in remote and very remote regions of Australia, and have a higher proportion of Indigenous people living in the community than in the general population.

15.78 According to the ABA the banking industry is 'willing to commit resources in particular to finding solutions for the difficulties that people in remote Australia face, including personal financial literacy skills, and less choice of services'. The most recent step toward this objective was the announcement by the ABA to lead a tripartite Round Table ('Remote Services Round Table'). In brief, the initiative is to involve relevant government agencies, in partnership with Reconciliation Australia, to draw up action plans to improve access to banking services. This proposal is in keeping with a number of the Committee's recommendations. For example, the Committee sees an important role not only for institutions such as the Traditional Credit Union but the major banks in encouraging and assisting Indigenous Australians to pursue a career in the financial services sector (see recommendation 25). Recommendations 26 and 27 are also particularly relevant.

While the Committee endorses the ABA's proposal and strongly encourages other possible participants to support the roundtable process, the Committee, nonetheless, would like to see concrete evidence of financial institutions taking a more hands-on approach to providing financial services to remote communities.





# CHAPTER 16

## THE CULTURAL ENVIRONMENT

### ‘Money Dreaming’

16.1 The magnitude of the problem in delivering banking and financial services to Indigenous people in remote Australia goes deeper than the lack of formal education and has its roots in the cultural gulf between the people and the mainstream business world.<sup>1</sup> Mr Barry Smith, Assistant Secretary, Department of Family and Community Services, quoted an elder from Daguragu who explained that their stories, traditions and pattern of behaviour do not have a ‘money dreaming’. He said: ‘You white people actually do have a money dreaming. You have the whole history of managing and using money.’

16.2 Mr Smith noted that understanding money matters is something that is growing among Indigenous people but ‘we have to find ways to grow it both culturally and substantially for those people’.<sup>2</sup> As underlined by Ms McDonnell:

Indigenous consumers of banking services have specific needs and they are simply not met by the basic banking model at the moment that privileges a set of norms that Indigenous people just are not involved in.<sup>3</sup>

16.3 For example, there are cultural forces that must be recognised when considering measures to assist Indigenous Australians manage their financial affairs. Professor Altman drew attention to the tendency of social networks to place ‘enormous demands’ on individuals to share cash.<sup>4</sup> Mr Smith made a similar reference to the pressures on people to provide for extended families which he called ‘demand sharing’. He told the Committee:

If you are trying to deal with somebody who is wanting demand sharing and they want to use that money for alcohol or gambling or some other use, then converting it into another product or another transactable note or whatever can help you manage that demand sharing. You are quite happy for demand sharing if it is around food but you do not have to give cash which then could be used for other products. That has been useful. Not everybody has used it but for some people it has been useful. The term is ‘humbugging’ but it is tied up with the demand sharing. Older people find it much more

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1 Professor Jon Altman, *Committee Hansard*, 14 November 2002, p. 83.

2 *Committee Hansard*, 12 November 2002, p. 36.

3 *Committee Hansard*, 14 November 2002, p. 102.

4 *Committee Hansard*, 14 November 2002, p. 84.

difficult to say no. Younger people probably find it easier to say no because they are probably a little bit distanced from that cultural requirement.<sup>5</sup>

16.4 People working with the Tangentyere Council in Alice Springs also commented on the broader obligations that Aboriginal people have toward a wider range of people—‘they feel obligated to take all the money and share it’.<sup>6</sup> Mr Acfield, Tangentyere Council, stated that their money, ‘in a sense, is a resource that can be utilised communally’.<sup>7</sup>

16.5 The Cape York Community Financial Project Ltd informed the Committee that the cultural rules of its communities include ‘an underpinning reciprocity and demand sharing amongst the community members and the kinship, ties and social alliances which extend beyond families and households’. It submitted:

The banks are seen as cash outlets not as saving facilities and there is a low cultural emphasis on savings.<sup>8</sup>

16.6 Another example which highlights the special needs of some Indigenous people living in remote areas revolves around the problem often referred to as the ‘feast or famine’ or ‘boom and bust’ cycle. This cycle involves ‘people spending their welfare payment soon after receiving it, and being left without money until their next payment’.<sup>9</sup>

## **Delivering culturally appropriate services**

16.7 Reconciliation Australia asserted that real improvements in Indigenous access to banking and financial services in rural and remote areas ‘can only be made by developing mutually beneficial cooperation between Indigenous communities, the financial services sector and governments’.<sup>10</sup>

16.8 The following section looks at three groups that are currently helping people meet the challenge of delivering banking and financial services to Indigenous Australians—the Tangentyere Council, the Traditional Credit Union (TCU) and the Cape York Community Financial Project. They have been described as ‘best practice models in the delivery of banking and financial services to Indigenous people in remote areas’.<sup>11</sup>

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5 Mr Barry Smith, *Committee Hansard*, 12 November 2002, p. 37.

6 Tracie Nightingale, *Committee Hansard*, 22 July 2003, p. 584.

7 *Committee Hansard*, 22 July 2003, p. 583.

8 *Submission 47*, pp 3–4.

9 *Talkin’ Money Business*, Proceeds of the Workshop on ‘Improving Banking and Financial Services for Indigenous Australians’, Sydney, May 2002, p. 7.

10 *Submission 120*, Executive Summary.

11 *Talkin’ Money Business*, Proceeds of the Workshop on ‘Improving Banking and Financial Services for Indigenous Australians’, Sydney, May 2002, p. 6.

## The Tangentyere Council

16.9 The Tangentyere Council is an Aboriginal run council which provides services to Indigenous people living in town camps in Alice Springs. It has been providing financial services to town campers for over 15 years through a Westpac agency located on its premises.<sup>12</sup>

16.10 This bank agency delivers ‘culturally appropriate face-to-face banking and financial services by Aboriginal staff in Aboriginal languages’.<sup>13</sup> In addition to cashing cheques, it allows customers to pay off debts to the Council for low-value items such as blankets and tucker boxes.<sup>14</sup> The agency also offers literacy training and specialised Aboriginal banking products, such as clan accounts and food vouchers.<sup>15</sup> It assists Indigenous people combat the feast and famine cycle by offering a food voucher system whereby people can place an amount of their welfare payment into an account which is then used for food.<sup>16</sup> Mr William Tilmouth, CEO of the Council, explained:

Clients electing to use the system can get a food voucher every second day after pension day. The vouchers range in value from \$40 to \$100 depending upon the number of people being fed in the family and the value of the client’s Centelink payment.

People can use their vouchers at a local supermarket that they can travel to free of charge on one of two Tangentyere Council buses that run throughout the day between the Town Camps, Tangentyere Council, the supermarket and, when needed, the hospital.<sup>17</sup>

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- 12 William Tilmouth, Tangentyere Bank Pilot Project—a possible best practice model in the delivery of banking and financial services to Indigenous people, p. 1. Neil Westbury, ‘Feast, Famine or Fraud’, Address given at ‘Indigenous Issues in Remote and Regional Australia: A national Workshop’, 22–23 April 2002, p. 3. It should be noted that all the major banks are represented in Alice Springs through bank branches or agencies. Neil Westbury pointed out, however, that: ‘The barriers in Alice Springs primarily relate to Indigenous people’s confidence and capacity to access mainstream services and master new technology, and the flexibility of the banks to respond in addressing these issues’.
- 13 *Talkin’ Money Business*, Proceeds of the Workshop on ‘Improving Banking and Financial Services for Indigenous Australians’, Sydney, May 2002, p. 6.
- 14 William Tilmouth, Tangentyere Bank Pilot Project—a possible best practice model in the delivery of banking and financial services to Indigenous people, p. 2.
- 15 *Talkin’ Money Business*, Proceeds of the Workshop on ‘Improving Banking and Financial Services for Indigenous Australians’, Sydney, May 2002, p. 7.
- 16 *Talkin’ Money Business*, Proceeds of the Workshop on ‘Improving Banking and Financial Services for Indigenous Australians’, Sydney, May 2002, p. 7.
- 17 William Tilmouth, Tangentyere Bank Pilot Project—a possible best practice model in the delivery of banking and financial services to Indigenous people, p. 2.

Because the supermarket enforces a ‘no-grog’ rule on the use of food vouchers, the system also helps families cope with alcoholism. Holding a food voucher instead of cash provides clients with some protection from pestering from drunk family members and, in some instances, Tangentyere Council has allowed the sober adult of the family to draw food vouchers on the alcoholic’s account with their sober consent. This helps to keep children fed and helps alcoholics fulfil their obligations to their family.<sup>18</sup>

16.11 The effectiveness of this scheme appeared to be under threat with the transfer from cheque payments to electronic payment. According to Mr Tilmouth, the problem was solved when the Department of Family and Community Services and Centrelink helped Tangentyere Council develop a new food voucher system using the Centrepay deduction facility.<sup>19</sup>

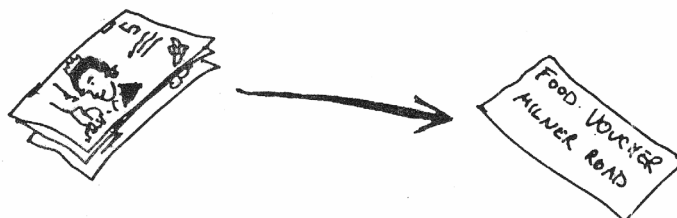
16.12 The accompanying illustrations produced by the Tangentyere Council show the steps taken by the staff to assist their members not only with basic banking services but with budgeting and managing some of the cultural pressures such as ‘humberging’.



You might not want to have  
too much cash on you

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- 18 William Tilmouth, Tangentyere Bank Pilot Project—a possible best practice model in the delivery of banking and financial services to Indigenous people, p. 2.
- 19 William Tilmouth, Tangentyere Bank Pilot Project—a possible best practice model in the delivery of banking and financial services to Indigenous people, p. 3. He explained, ‘Under the new system, clients elect to have a portion of their entitlement paid by Centrelink into a trust account operated by Tangentyere Council. When they want a food voucher, a cheque made payable to the local supermarket is drawn from the trust account. Thus under the new system people are using their own money to buy food vouchers rather than going into debt’.

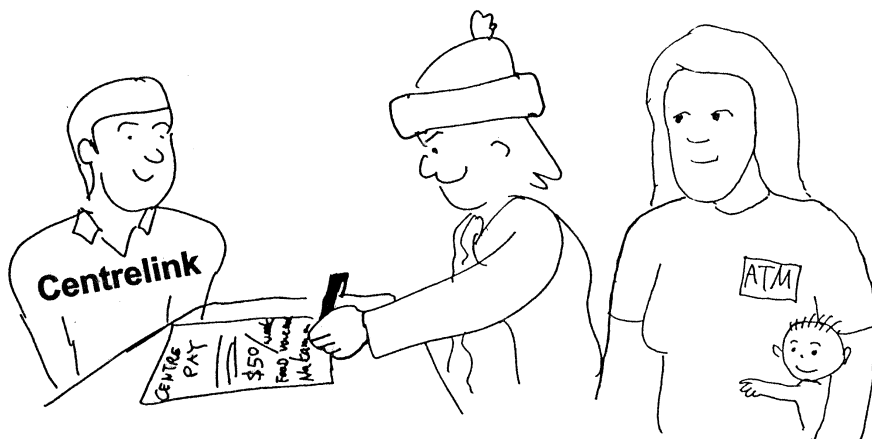
Do you want to use  
**Centrepay?**



Centrepay can help you buy  
Tangentyere Food Vouchers with  
your Centrelink money



Money for food vouchers gets  
taken out of your pay by  
Centrelink before you get it



If you want, one of the Bank Helpers will go with you and make sure everyone understands everyone.



The Bank Helper is not allowed to say anything about your arrangements to anyone.



You can also get Centrelink to take out money for rent and other bills before you get your pay





16.13 As noted earlier one of the main problems with electronic banking was people losing their key card. The bank agency has been able to rectify this problem by holding their customers' cards for them.

16.14 Again, education and training is central to the effective use of banking services. The agency in collaboration with the Department of Family and Community Services, Westpac and ATSIC undertook a bank pilot project which addressed this matter. The bank liaison officers operated out of an air-conditioned demountable building, called the Bank Training Room, in which clients could watch a video in Aboriginal language explaining the benefits of keycards, and receive training while their forms were being processed. According to Mr Tilmouth, 'Initially, the flow of clients from the bank agency to the Bank Training Room...was slow. However, this problem was overcome by giving clients a brightly coloured "ticket" to the Bank Training Room'.<sup>20</sup>

16.15 Mr McDonald stressed that the education program did not go beyond providing people with the skills and training to perform basic banking transactions. He told the Committee that they did not reach a stage where they were 'providing people directly with budgeting skills, such as numeracy skills, so that they could sit down with a calculator and rejig their own budget every fortnight. That level of training has not been started'.<sup>21</sup>

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20 William Tilmouth, Tangentyere Bank Pilot Project—a possible best practice model in the delivery of banking and financial services to Indigenous people, p. 4.

21 *Committee Hansard*, 22 July 2003, p. 578.



16.16 The project with the help of Centrelink has also enabled recipients of welfare benefits to better manage their welfare payments. Mr Tilmouth explained:

Having a Centrelink office on Tangentyere Council's premises has made opening bank accounts and signing up people for Centrepay deductions relatively easy. Centrelink staff are able to provide our clients with letters of introduction for the opening of bank accounts and payment details so that the bank liaison officers can help them through a static budgeting process to decide if and to what extent they want to sign up for food vouchers. The bank liaison officers, however, do not provide clients with training in numerical and budgeting skills.<sup>22</sup>

16.17 While the Tangentyere Council provides a valuable service, it is running at a loss. Mr Westbury explained:

...because of the level of servicing and support that is required for people coming in from the communities, and the whole issue of cards and all those things you have heard from other evidence before you, the actual costs for Tangentyere to maintain that service are well over what they get back through fees from the bank or what they raise through their clients.<sup>23</sup>

16.18 The Tangentyere Council, however, is prepared to subsidise the operation of the bank agency because of the vital need to provide Aboriginal people in the region with 'culturally appropriate services in a welcoming environment'.<sup>24</sup> The following illustrations produced by the Tangentyere Council show the involvement of agency staff in helping local Indigenous Australians understand how modern technology can be used to their advantage. It also highlights the labour intensive component of their work.



## Using a Handycard

including what to do if you lose one

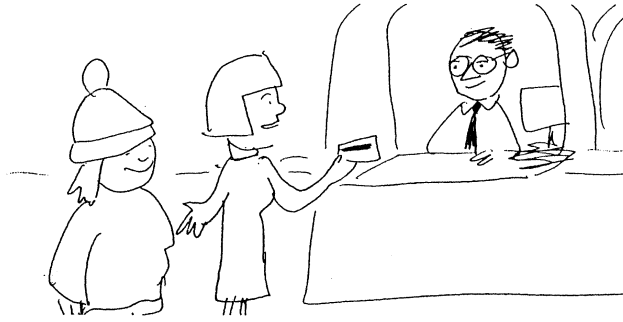
Copyright Centrelink and Tangentyere Council Inc 2000

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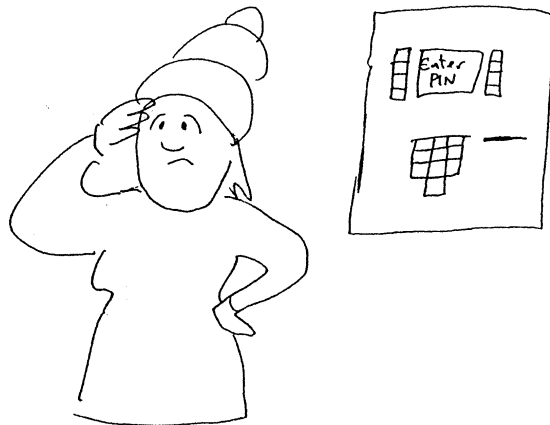
22 William Tilmouth, Tangentyere Bank Pilot Project—a possible best practice model in the delivery of banking and financial services to Indigenous people, p. 4.

23 *Committee Hansard*, 21 July 2003, p. 543.

24 Patrick McDonald, *Committee Hansard*, 22 July 2003, p. 575.



You can make up your own PIN number. A Tangentyere Bank Helper will take you to Westpac to change it to whatever you chose.



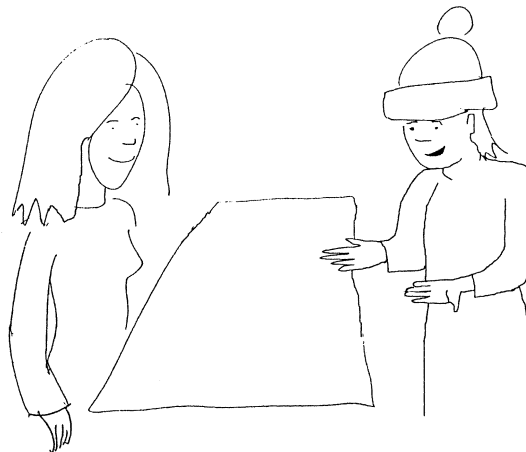
What if I forget my PIN number?



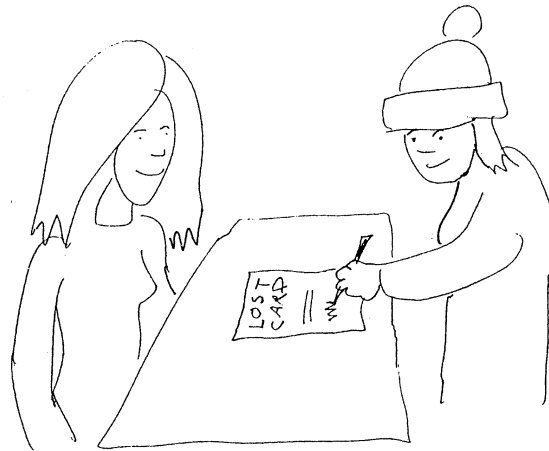
The Tangentyere Bank Helper will  
take you to Westpac to get a new  
PIN number.



What if you lose your card?



As soon as you can, tell them at Tangentyere Bank or any Westpac bank



They will cancel your old card so no-one can use it and order you a new one

## The Traditional Credit Union

16.19 The Traditional Credit Union (TCU) has developed another model that addresses some of the problems associated with delivering financial services to Indigenous people living in remote areas of Australia. It is an Aboriginal run credit union operating in the Northern Territory. It was incorporated in December 1994, has a head office in Darwin with eleven remote branches and two agencies. According to the Assistant General Manager of the TCU, Ms Bev McMillan:

When TCU began operation it was seen to be a way for members to put money away for later and to [provide] protection from family pressure. Today TCU is far more than this, offering up to date services:

- Savings, budget and Christmas Club accounts;
- Cuecards that can be used in all EFT-POS and most ATM machines Australia wide and some overseas machines;
- Family or Clan accounts to be used for joint saving;
- Business Accounts;
- Cheque accounts;
- Internet Banking;
- Bpay;
- Personal loans up to \$10,000, initial loan maximum is \$5,000 with some members on their second or third loan having paid off previous loans;

In partnership with ATSIC, TCU offer a Small Business Loans Scheme with loans up to \$15,000.<sup>25</sup>

16.20 It has been effective in assisting communities combat the feast and famine cycle prevalent in some families. According to a report:

...anecdotal evidence indicates that since the TCU began operating, people are more likely to spend their money over a full fortnight and are more able to save...that many TCU members utilise budget accounts, saving money over a period of time and purchasing white goods, furniture, small motor vehicles and boats, or using it to go on holiday. Such evidence belies the myth that Indigenous people, and particularly those on very low incomes, cannot save.<sup>26</sup>

16.21 Mr David Shoobridge from the Daly River Community provided another example of where the TCU encourages their customers to bank wisely. He stated:

You cannot walk in with a deposit and get a loan within the next day or couple of days. You have got to take three months to build up your credit and to deposit the amount of money you need as a deposit over the three months. In many ways, that is like an education program. It teaches people to save, and it teaches them that they have a responsibility to pay regularly.<sup>27</sup>

16.22 The TCU is committed to training local staff and provides the required level of training that has enabled the credit union to use local staff to operate its branches. It employs Indigenous people to work in and manage its remote branches and offers them the opportunity for promotion. At the moment, the TCU has two remote Indigenous branch supervisors who have served 5 years.<sup>28</sup> Ms McMillan attributes the success of the TCU to:

- the initiative of Aboriginal elders who saw it as something they needed and who were determined for it to become a reality;
- the commitment to providing real jobs to Aboriginal people in their own community;
- the training of staff to perform their duties with pride and self-confidence;
- the membership structure where members are equal shareholders and own the institution;
- the directors and senior management who work together to create a high standard and work ethic; and

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25 Bev McMillan, *Traditional Credit Union—Access to Financial Services*.

26 *Talkin' Money Business*, Proceeds of the Workshop on 'Improving Banking and Financial Services for Indigenous Australians', Sydney, May 2002, p. 7.

27 *Committee Hansard*, 21 July 2003, p. 559.

28 *Supplementary Submission 58B*.

- TCU's understanding of Aboriginal culture and its ability to work without compromising the regulatory obligations of a financial institution.<sup>29</sup>

16.23 Ms McMillan's remarks are borne out by the comments of Mr Djerringal Gaykamanu, a director and founding member of the TCU. He indicated that the TCU's importance to Indigenous communities went further than just providing much-needed banking and financial services. He stated:

I started in the sixties to work with the people, bit by bit, for community development and I am still working. I am the eldest at Milingimbi. I look after the community and I look after the TCU. I know the background story of the TCU—where it started, where it has come from and what it is like now. The TCU is a very big name and it has become really good. Everybody is happy that we started small and have grown big. That is very important for our training, for business and for saving money. We can show our kids down there why we started it up.<sup>30</sup>

16.24 In the view of the Northern Territory Government, the TCU has demonstrated 'a culturally effective strategy to deliver banking and financial services to isolated indigenous communities.'<sup>31</sup> It stated further:

The TCU's approach lends itself to be adopted as a model for other remote areas with a significant Indigenous and welfare dependent sector.<sup>32</sup>

16.25 The Department of Family and Community Services also acknowledged the contribution that the TCU is making to provide banking services to remote communities. Likewise, Reconciliation Australia praised the work of the TCU maintaining that it provides a possible 'best practice' model for the delivery of banking and financial services.<sup>33</sup>

### ***Limitations on expanding services***

16.26 The TCU, however, faces the same difficulties as those experienced by smaller ADIs in country areas, including limited capital reserves and a regulatory regime that places limits on their ability to expand services and establish new sites. As with other smaller ADIs, the TCU's low level of reserves, its conservative risk management plan and its reluctance to charge excessive fees to cover costs hamper its expansion. The TCU, while accepting that regulation is necessary, highlighted the difficulties that such a regime places on smaller ADIs. Ms Barbara Bradshaw, former General Manager of the TCU, maintained that meeting the regulatory requirements is a major issue for the TCU:

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29 Bev McMillan, TCU, *Traditional Credit Union—Access to Financial Services*, pp. [3]–[4].

30 *Committee Hansard*, 21 July 2003, p. 525.

31 *Submission 128*, pp. 6–7.

32 *Submission 128*, p. 7.

33 Barry Smith, *Committee Hansard*, 12 November 2002, p. 35.

This not only increase[s] costs, but it can be a difficult and time-consuming matter, particularly when a lot of the requirements were devised for much larger organisations operating in an urban environment. A lot of effort has gone into these compliance issues, but it somehow seems that after one challenge had been dealt with, a greater one arrives.<sup>34</sup>

### ***The regulatory regime and compliance costs***

16.27 To comply with the regulations under the FSRA, the TCU had to change from providing customers with basic information that was easy to read and understand to producing a two-page product disclosure statement on every product. According to the TCU, every time it signs on a new member it has to give them ‘an inch thick of paperwork with all the regulatory requirements of using its services and the products, their rights of reply, the Privacy Act, code of conduct, and terms and conditions of use’. This is but one example of the range of compliance costs the TCU incurs in satisfying the regulatory requirements of the FSRA.

16.28 Furthermore, the experiences of the TCU highlight the importance of having a regulatory regime that has the flexibility to take account of the interests of all consumers. In this case, the Indigenous people living in remote communities whose needs are not necessarily met by the current disclosure requirements. The primary concern of the TCU is to deliver a service in a culturally appropriate way that will equip their Indigenous customers with the skills needed to conduct basic banking transactions and to manage a fortnightly personal budget.

16.29 As detailed above the costs in delivering banking and financial services to remote communities are significant and are ultimately borne by the customer. The TCU acknowledged that despite its efforts to contain costs, it has a high fee level and level of interest rates for loans. It told the Committee:

The fees charged represent our costs of operation in a challenging environment. This point is made to our members and I believe that whilst many do not like the higher fees they realise that they represent the costs of operating in remote communities. They also appreciate having the Traditional Credit Union there.<sup>35</sup>

16.30 The problems faced by credit unions in complying with regulations was covered in chapter 8. The Committee found that the current regulatory regime frustrates the attempts of smaller ADIs to establish a presence in remote Australia. It recommended that APRA and ASIC consult with CUSCAL and with smaller ADIs about the limitations placed on them by the regulatory regime in meeting the banking needs of Australians living in rural, regional and remote communities. The Committee

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34 Barbara Bradshaw, General Manager of the TCU and Camille Damaso, Director, TCU, *Traditional Credit Union Limited: A case study highlighting innovative approaches to the delivery of banking and financial services in Australia*, p. 7.

35 *Submission 58A*, p. 1.



recommended that particular focus be placed on ADIs working with Indigenous communities in the remote areas of Australia.

16.31 The work of the Tangentyere Council and the TCU, underlines the importance of the Committee's recommendation particularly in having the review look at the specific circumstances of ADIs providing services in remote Indigenous communities. The Committee believes that consideration must be given to find better and more effective ways to minimise compliance costs while promoting the interests of Indigenous consumers. Clearly, Indigenous people with poor literacy and numeracy skills are unlikely to benefit from information presented in complex and lengthy documents. The illustrations prepared by the Tangentyere Council show the need for flexibility and sensitivity in meeting the needs of the Indigenous consumer.

### ***Competition with the traditional banks***

16.32 The TCU also shares the same problem as other non-bank ADIs in competing with well known traditional banks with their long-established reputations and their large client base. In this case rather than 'cherry pick' valued customers there is a tendency for the banks to discourage less valued ones. The TCU explained that:

The four major banks openly encourage their Indigenous clients to transfer their accounts to the TCU, as they are costly clients and a nuisance factor in their banks.<sup>36</sup>

16.33 The TCU suggested that the big banks could compensate it for 'taking over these high-overhead clients'. Not only does the TCU look after these customers, but it takes responsibility for educating and training them in the use of banking services even though they are not necessarily TCU customers.

### **The Cape York Community**

16.34 Before leaving the discussion on the work of individual communities or organisations, the Committee draws attention to the work being done on Cape York. The Cape York Community Financial Project Ltd formed as part of the Aurukun Shire Council intends to establish a credit union for Aboriginal people in Cape York to be known as the Cape York Community Credit Union Ltd.

16.35 It is hoped that the ownership of and involvement in the local credit union will encourage community members to save for the benefit of the whole community. The Cape York Community Financial Project Ltd stated simply that the whole concept behind the credit union is to facilitate the development of a real Aboriginal community economy for the benefit of all the local communities. The Australian

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36 *Committee Hansard*, 21 July 2003, p. 524.

Government has recently allocated \$90,000 to help the community develop a business plan for the credit union.<sup>37</sup>

16.36 Westpac is involved in trials in three communities in Cape York with the 'Family Income Management' Project. The program is aimed at increasing the purchasing power of families in Cape York by teaching and assisting them to save for a special purpose by putting aside a proportion of their income on a regular basis. A Cape York Project Manager with Westpac has no doubt that the project can be a success:

When we came back in April of last year with a second group of secondees, the FIM project was still quite not established but almost and Hersey and Kenlock [keen local participants in the Project] were continually shuttling in families. I think it was about 25 families in the first day and they all engaged with Family Income Management. There are little things that you see every day like the number of washing machines under houses and the ramifications of a simple thing like a washing machine that we take for granted like health implications are enormous.<sup>38</sup>

16.37 On 6 August 2003, the Prime Minister announced that the Australian Government would commit a further \$1.5 million to allow the expansion of the trials.

16.38 The Cape York Community Financial Project maintained that the introduction of a credit union to the communities of Cape York, along with the Family Income Management Plan, 'will go a long way towards assisting the communities in building their own economy and assisting the indigenous people to move beyond passive welfare and towards financial and economic independence'.<sup>39</sup>

16.39 Westpac has also embarked on a three-year project to encourage local business by committing 150 members of its workforce to come into the community and work with local groups to start up various enterprises.<sup>40</sup>

## Summary

16.40 A number of themes emerge from the work being undertaken by the Tangentyere Council, the TCU, the Cape York Community Financial Project and Westpac in remote communities. The first is the need for long term and genuine commitment by partners to the project. Ms Tania Major from the Cape York region stressed that continuity in assistance was most important in winning the confidence of local people. The communities wanted more than just words and one-off projects. She

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37 Media Release, Prime Minister, 'Family Income Management Projects for Indigenous Communities', 6 August 2003.

38 Transcript, 'Indigenous Community Finances', 'Business Sunday', 15 September 2003.

39 *Submission 47*, p.163.

40 Transcript, 'Indigenous Community Finances' 'Business Sunday', 15 September 2003

stated that there needs to be a commitment on behalf of those coming into the communities to help:

Continuity—they coming back to the community and seeing they are genuine about what they are saying and the fact that they are constantly in the community and helping seeing something evolve from all this word.<sup>41</sup>

16.41 The second theme concerns community involvement. Mr Gaykamanu, one of the founding members of the Traditional Credit Union, stressed the importance for the local people to own and support the project. He told the Committee:

The little credit union is just like your home: you live there. That is why I said the credit union needs a home at Milingimbi for these people. This Traditional Credit Union is not going to be going somewhere else, either. I went down to the Daly River and talked to their people. I said, ‘Where are we going to put the TCU, and who is going to own it?’ I looked around—owned by somebody that was going to be living there. We are come-and-go people; we move around a lot, and this is why I said it. If we leave it there, who is going to look after it?<sup>42</sup>

16.42 The third theme is the need for funding and support from both governments and the private sector to assist Indigenous communities gain their economic independence.

## Committee view

16.43 The Committee commends the work of the Tangentyere Council, the TCU, the Cape York Community Financial Project and Westpac in assisting people in remote Indigenous communities to better manage their financial affairs. Such partnerships are fundamental to the success of education and training programs and should have the strong support of the Australian Government.

16.44 While acknowledging the achievements of the various pilot programs and trials taking place, the Committee takes particular note of the views of local people that continuity and commitment are crucial if the effects are to be lasting. The Committee strongly supports continued funding for such projects.

## Recommendation 27

**The Committee recommends that the Australian Government continue funding projects such as the Family Income Management Plan. It, however, recommends that the Australian Government, relevant State and local governments and the banking industry work with Indigenous communities to map out a plan that would use the successes already achieved in trials as a platform on which to build a more coherent and integrated policy for the economic independence of**

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41 Transcript, ‘Indigenous Community Finances’, ‘Business Sunday’, 15 September 2003.

42 *Committee Hansard*, 21 July 2003, p. 526.

**Indigenous people. The work done by the Tangentyere Council, the TCU and the Cape York Community should be stepping stones leading to even greater and lasting success in advancing the economic welfare and independence of Indigenous Australians.**

16.45 The Committee acknowledges the involvement of Westpac in the various projects and encourages it to continue its work. At the same time, the Committee notes the absence of the other major financial institutions from any significant engagement in Indigenous communities and would like to see them follow Westpac's example.

16.46 In its supplementary submission, the ABA outlined a proposal that is in keeping with the Committee's recommendation for both the public and private sector to become partners in assisting remote communities with their banking and financial services needs. The ABA commissioned a study of access to banking services which is discussed in chapter 6. The resultant survey identified 32 towns across Australia that did not have adequate face-to-face banking services. They tend to be located in very remote regions of Australia and have a higher proportion of Indigenous people living in the community.

16.47 Having identified the areas most in need of assistance, the ABA proposes to move onto the next stage by leading a tri-partite Round Table ('Remote Services Round Table') including relevant government agencies together with Reconciliation Australia 'to draw action plans to improve access'. It stated:

Banks are committed to improving access, and we need cooperation of the bureaucracy and indigenous leaders before resources can be allocated.<sup>43</sup>

16.48 The Committee endorses this initiative but would like to see any such project move beyond the stage of talking to one of active and sustained involvement by the banking industry in improving access to financial and banking services. The banks can best demonstrate their commitment by establishing, with the help of local communities, a presence in these communities.

16.49 The Committee now turns to examine the operation of the RTC program in remote Australia.

### **Rural Transaction Centres in remote Indigenous communities**

16.50 RTCs also offer the opportunity to expand banking and financial services in remote areas of Australia. To date, however, progress has been very slow with only four operational RTCs in the Territory. They are at Oenpelli, Mataranka, Numbulwar and Maningrida. There is one under development at Wadeye (Port Keats). All except Mataranka are Indigenous RTCs and include the Traditional Credit Union, Centrelink

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43 *Supplementary submission 117*, pp. 1–2.

and a range of community services. Mataranka has a Post Office with giroPost, Centrelink and other services.<sup>44</sup>

16.51 The main difficulties with establishing an RTC in remote Australia are the same as those experienced in rural and regional Australia but the hurdles tend to be higher. Many isolated communities are unable to generate the required critical scale of business activity to be commercially viable. The experiences of the TCU testify to the particular difficulties that remote communities have in building a creditable business case which has to take account of the heavy expenses involved in providing services to outlying areas.

16.52 Reconciliation Australia observed that for many small Indigenous communities, economies of scale dictate that only if they collaborate through joint ventures with other communities will they 'be able to demonstrate the self-sustainability required by the RTC Program guidelines'.

16.53 But the scope and ambition of the RTC program make it difficult to accommodate the particular challenges posed by Indigenous communities. Mr Westbury suggested that more thought 'needs to be given to designing the program around the realities associated with these communities'. He stated:

They may require different and more flexible approaches to the ways in which applications are assessed and encouraged. By that I mean that there may be ways by which the fund might encourage Aboriginal communities to group together to make applications. Clearly, in terms of economies of scale, in some cases it is just not practical or realistic to expect that a credit union operation is going to be viable in each individual major community.<sup>45</sup>

16.54 The Tangentyere Council poses a different problem in meeting the funding guidelines of the RTC program. It deals with groups of Indigenous people who live within a large community but who are in effect 'very isolated from that community'. Mr Acfield, Tangentyere Council, explained:

The urban-remote divide becomes a bit blurred in Alice Springs. That has been an issue for us and it is part of the reason we have gone for the hub notion. We can effectively use remote communities' access to RTC funding to then pull together a hub in Alice Springs, rather than go for funding which might go the other way—in other words, to set up a program which

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44 Additional information supplied by the Department of Transport and Regional Services, 3 September 2003.

45 *Committee Hansard*, 21 July 2003, p. 543. See also comments in N. Westbury, 'Feast, Famine or Fraud', Address given at 'Indigenous Consumer Issues in Remote and Regional Australia: A National Workshop, 22–23 April 2002, p. 7. The Gulin Gulin & Weemol Community Council Aboriginal Corporation maintained that the only practical solution is for people to have access to an agency or branch, and this is only likely to be provided by a combination of a credit union and the RTC program.

could be funded from Alice Springs to provide services. We have had to be fairly creative, if you like, about how we have used that fund.<sup>46</sup>

16.55 Apart from the difficulties facing a remote community in achieving a critical level of business turnover, it must also have within it a group of people capable of putting together a sound financial plan showing that there is sufficient community backing and management skills to make the facility commercially self-funding. The community, however, needs to draw on expertise to build a sound business case in areas that are already commercially marginal. Managing this critical stage is a significant obstacle. Ms Bev McMillan from the TCU noted that compiling a business management plan to accompany the funding application is:

...a mammoth task for a manager in a community who is already overworked and overtaxed. Sometimes they do not have the time or have the ability to get that one step further to take advantage of the funding.<sup>47</sup>

16.56 Indeed, the experiences of the Nyirranggulung Mardrulk Ngadberre Regional Council underline the difficulties in bringing together a business plan. It reported that progress to establish an RTC at Bulman had stalled because its 'remoteness makes it impossible to undertake the negotiation necessary to develop the agreements and commitments required to complete a business plan'. It informed the Committee:

Proposed service providers for the RTC included a credit union, Centrelink, Batchelor College and others. Negotiating letters of intent and lease agreements with these providers has proved an impossible hurdle from Bulman.<sup>48</sup>

Notwithstanding its disappointment, the Council was 'looking again at financial and other services in a regional framework'. It was firm in the view that:

The RTC scheme can and will make a significant contribution to accessing financial and other services in remote areas.<sup>49</sup>

16.57 There is also the partnership aspect of an RTC and the importance of attracting a financial institution willing not only to support the enterprise but equipped and sufficiently ambitious to broaden the scope of the financial services to be provided. Professor Altman noted that the RTC program was still in its infancy and that most of the centres he was aware of are 'building shells that are a form of

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46 *Committee Hansard*, 22 July 2003, p. 588.

47 *Committee Hansard*, 21 July 2003, p. 527.

48 Correspondence received as additional information, Nyirranggulung Mardrulk Ngadberre Regional Council to Committee, 11 September 2003. This correspondence follows a submission by the Gulin Gulin & Weemol Community Aboriginal Council. Gulin Gulin is a member community for this region.

49 Correspondence received as additional information, Nyirranggulung Mardrulk Ngadberre Regional Council to Committee, 11 September 2003.

infrastructure for financial, banking and other service delivery agencies to locate in'.<sup>50</sup> He stated further:

It seems to me that an RTC will only be as effective in terms of banking and financial services as the operator you get in there. Again, I guess we are just going back to the fact that if you can get a bank branch into an RTC it would probably be very positive, particularly if it can provide some business advisory services and access to business credit. But if it is a credit union or giroPost or an ATM, for instance, then it is not going to make a huge difference to the economic development potential for that community.<sup>51</sup>

16.58 Four key issues emerge from the discussion on the establishment of RTCs in remote Australia:

- the problem in generating sufficient business activity to make an RTC a commercially viable enterprise;
- the RTC guidelines which appear to lack flexibility and fail to recognise and appreciate the unique structure and composition of Indigenous communities;
- the difficulty in locating a core of committed people from the community with the professional and business skills and foresight to design and initiate plans for the establishment of a financial institution that would meet the needs of their people; and
- the lack of involvement of Australia's major financial institutions to support RTCs in remote areas of Australia.

16.59 In chapter 8, the Committee made a number of recommendations that are intended to improve the operation of the RTC program. They are relevant to the RTC program as it applies to remote areas especially the need for the program to be able to accommodate the unique circumstances of isolated communities. This section of the report has underscored the importance of this recommendation.

16.60 The Committee also notes that the RTC board does not have an Indigenous representative. Reconciliation Australia pointed out that although Indigenous people form a high percentage of the population in many areas that are eligible for assistance under the program, there is no Indigenous representation on the RTC Advisory Board.<sup>52</sup>

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50 *Committee Hansard*, 14 November 2002, p. 88.

51 *Committee Hansard*, 14 November 2002, p. 88.

52 See also comments in N. Westbury, 'Feast, Famine or Fraud', Address given at 'Indigenous Consumer Issues in Remote and Regional Australia: A National Workshop, 22–23 April 2002, p. 7

## Recommendation 28

**The Committee recommends that a member from the Indigenous community, who is able to represent the interests of Indigenous people living in remote areas of Australia, be appointed to the RTC Board.**

**In addition, the Committee recommends that the RTC Board's Charter be amended to recognise specifically the need for the provision of services to remote Indigenous communities.**

## Investment capital in remote Indigenous communities

16.61 The Committee now turns to two key issues briefly touched on in its consideration of the operation of the RTC program in remote communities—the shortage of local business and entrepreneurial skills and the absence of financial institutions.

16.62 The lack of both business activity and leaders to drive commercial activity means that financial institutions are not attracted to remote Indigenous communities. But the very absence of banking and financial services in itself means that business is not drawn to these areas and so an environment that lacks both financial services and business activity and where financial literacy and business skills are not fostered becomes self-perpetuating. Professor Altman told the Committee:

...a certain rudimentary level of business banking services is needed before commercially viable businesses can operate, unless small Indigenous businesses are expected to operate without access to deposit facilities, credit facilities and other financial services—hardly a realistic option at the start of the 21st century.<sup>53</sup>

16.63 Such an environment then suffers from a range of difficulties especially its ability to attract capital and to produce skilled people with the initiative and confidence to establish commercial enterprises. Three financial commentators noted:

Access to development, equity or venture capital typically requires the existence on the part of the persons seeking such capital, ownership of valuable assets and the requisite skills to manage and develop those assets.<sup>54</sup>

16.64 They maintained that in the main Indigenous people do not have the access to equity capital that is available to non-Indigenous Australians because:

- they lack the skills to identify potential business opportunities and to package and structure those opportunities;
- they lack business and management skills to operate and develop businesses;

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53 *Committee Hansard*, 14 November 2002, p. 79.

54 Peter Yu, Anthony Abraham and Danny Gilbert, *Indigenous Banking and Financial Services Workshop*, Sydney, 8–9 May 2002, Gilbert & Tobin, 2002, p. 2.



- they are not part of and have no connections into the professional business world of the equity and investment markets, making it impossible for them to access the requisite capital, advice and skills;
- they have not until recently, had access to assets which could be used to attract equity capital; and
- the assets held or ‘controlled’ by, and the opportunities available to, Indigenous people are typically in locations remote from each other and from major commercial centres.<sup>55</sup>

16.65 The Northern Territory Government submitted that:

If remote communities are to build their capacity to move beyond local welfare or government supported economies, small business and private joint venturers need access to banking and financial planning facilities. Private sources of finance and financial services need to be locally available to encourage economic development and retain cash within the communities.<sup>56</sup>

16.66 Coupled with these various problems is the perception by banks that Indigenous people have limited credit records and no collateral, are high risk, and add no value to the bank’s financial bottom line.<sup>57</sup> Mr Joseph Elu, Director, Reconciliation Australia, suggested that fees are higher in some Indigenous communities:

I come from the Torres Strait and have lived there almost all of my life, and the lack of banking facilities up there borders on being funny...It is a fact that in the Torres Strait the National Bank were charging higher interest fees. The reason they gave for that was that, because people could not get insurance for their dinghies, the bank were stacking on a couple of interest points for personal loans.<sup>58</sup>

16.67 The Nauiyu Nambiyu Community Government Council noted the propensity of the larger banks not to consider loan applications in amounts less than \$5,000 which creates difficulties for Aboriginal people.<sup>59</sup>

16.68 In many remote areas of Australia, the land is often communally owned and legally inalienable.<sup>60</sup> The Northern Territory Government informed the Committee that:

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55 Peter Yu, Anthony Abraham and Danny Gilbert, *Indigenous Banking and Financial Services Workshop*, Sydney, 8–9 May 2002, Gilbert & Tobin, 2002, p. 3.

56 *Submission* 128, p. 3.

57 See the Cape York Community Financial Project Ltd, *Submission* 47, p. 6.

58 *Committee Hansard*, 14 November 2002, p. 91.

59 *Submission* 5, p. 2.

In mainstream Australian society personal banking and financial services centre around the home mortgage, the family home forms the basic framework of financial management and planning. In remote communities in the Territory, however, the majority of housing is on *Aboriginal Land*, preventing any legal form of home ownership.<sup>61</sup>

16.69 Mr Stephen Oxley from the Department of Immigration and Multicultural and Indigenous Affairs submitted:

We think banks should be encouraged to examine opportunities to provide home and business loan products targeted at the needs of Indigenous people and that, together with ATSIC and local communities, there are opportunities to look at creative methods of providing home loans to people living on community Aboriginal title land, where there have been historical impediments to use of that land as security.<sup>62</sup>

16.70 The Committee is aware that Indigenous people share with other people in regional, rural and remote Australia difficulties in gaining access to adequate banking and financial services. It notes, however, that some difficulties faced by Indigenous people are often compounded by remoteness, lack of financial literacy, socio-economic disadvantages, cultural differences or a combination of some or all of these factors. In some cases, their need for assistance is greater.

16.71 The theme that dominates any consideration of Indigenous financial matters is the extent and interrelatedness of the complex problems confronting Indigenous people in gaining access to banking and financial services. It is clear to the Committee that each identified problem cannot be treated in isolation. To tackle the problems effectively, the Committee believes that there must be a concerted and coordinated approach to address these issues. The Committee is not convinced that this has yet been developed.

16.72 The recommendations made in this part of the report must be placed in an overall policy framework that is intended to improve the economic and social welfare of Indigenous Australians. The strategy must clearly articulate its intention to advance the economic independence of Indigenous Australians by promoting informed decision making; furthering education about rights and obligations in respect of banking services; facilitating the wide and confident use of electronic banking in remote areas; fostering Indigenous commercial activity; and providing incentives for Indigenous people to take up the study of economics and commerce and take on

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60 See for example, *Generating finance for Indigenous development: economic realities and innovative options*, a paper for the Reconciliation Australia Ltd Workshop 'Banking and Financial Services for Indigenous Australians', Sydney, 8–9 May 2002, p. 4.

61 *Submission* 128, p. 6. Attached to the term 'Aboriginal Land' in this quotation is a footnote which reads 'Land acquired through claim under the *Aboriginal Land Rights (Northern Territory) Act 1976*, held as inalienable freehold title by a designated Land Trust.'

62 *Committee Hansard*, 12 November 2002, p. 15.

employment in the field of financial services. It should acknowledge that for programs to be successful Indigenous communities must embrace them as their own.

16.73 Any broad plan to improve access to banking and financial services must also seek to encourage financial institutions to make a commitment toward and to put in place practical measures to improve the delivery of banking and financial services to people in regional, rural and remote Australia particularly Indigenous Australians. This matter will be dealt with in the following chapter.



## **Part IV**

### **Financial Institutions in the Community**

The report has clearly established that there are pockets in rural, regional and remote Australia where people experience difficulty in obtaining banking and financial services. Local councils in particular have written to the Committee outlining the problems that their residents and local businesses have in accessing banking and financial services. In expressing their unhappiness with the delivery of such services, a number of submissions raised the issue of banks and whether they have a community obligation to provide adequate banking and financial services.

This final part of the report discusses this matter of financial institutions and the obligations they have to their customers and to the broader community.

Australia is not alone in this debate about the responsibility of banks to the community they serve and how to encourage or even compel banks to take a more constructive role in assisting disadvantaged communities. As well as exploring community service obligations, the following part of the report looks at developments in this area in the United Kingdom, the United States of America and in Canada and determines whether Australia can learn from their reforms.

Finally, the report summaries its views on the role of governments and the private sector in ensuring that all Australians have access to adequate banking and financial services.



# CHAPTER 17

## COMMUNITY SERVICE OBLIGATIONS

### Public expectations of financial services providers

17.1 One of the main challenges confronting financial service providers is satisfying the public expectations placed on them to meet the needs of the community they serve. Numerous commentators have drawn a distinction between normal commercial enterprises and those providing banking or financial services. They regard financial institutions as having a privileged place in society which carries added responsibilities.

17.2 This perception of financial service providers as occupying a special position of responsibility and trust in the community goes to the heart of the debate about the role of financial service providers, their obligations to shareholders and to customers, and to the community more broadly. A number of community representatives adhere strongly to the view that institutions such as banks are duty bound to ensure that they provide adequate services to all. For example in 2000, the then President of the Local Government Association of New South Wales acknowledged that banking like the rest of society had moved on and that old-fashioned practices must remain in the past. He went on to assert, however, that this development does not justify the abandonment of any sense of community obligation by the banks. He submitted:

Banks are not just like any other business. They are essential utilities. People cannot function in modern society without adequate access to the banking system. They are an integral component of society's institutional infrastructure. This has traditionally given banks a certain degree of status and privilege, and this has survived deregulation to a large extent. This conveys an obligation to the community.<sup>1</sup>

17.3 The City of Ballarat expressed a view typical of those in many submissions. It maintained that banks, like any profit-seeking enterprise, are required to deliver a reasonable and sustainable profit for shareholders but they also have a responsibility to the communities they serve.<sup>2</sup> To the same effect, the Municipal Association of Victoria argued that banking institutions have been 'afforded a privileged status' in the Australian community and should be required 'to provide a reasonable coverage of community requirements'.<sup>3</sup>

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1 'President's comment' in *Local Government Focus*, February 2000, <http://www.loc-gov-focus.aus.net/2000/February/presgr.htm> (23 December 2002).

2 *Submission 76*, p. 2. Swan Hill Rural City Council submitted that due to the protected environment in which Australian banks operate, they need 'to recognise and take practical steps to implement socially responsible policies for their customers and staff'. *Submission 13*, p. 1.

3 *Submission 114*, p. 4.

## The banks' awareness of community expectations

17.4 The banking industry is aware of such community expectations. Dr David Morgan CEO, Westpac Corporation, said in a speech in August 2000:

Businesses that handle people's money and with it their well being are not like businesses that sell running shoes or soft drinks. When people entrust their money to someone else, they expect to be recognised and respected.<sup>4</sup>

17.5 Mr Frank Cicutto, CEO of the National, acknowledged that public irritation with banks stems from the banks' inability to balance their need to modernise against community expectations of minimum service levels. He noted that banking is a fundamentally important service, and pricing and access must meet the needs of every member of the community. According to Mr Cicutto, the banks are not able to satisfy all people and some believe that they are not receiving the service to which they are entitled. He explained:

The dilemma we face is this...do we restrict modernisation to ensure uniformity of service standards for all...or do we provide different levels of service based on a capacity to pay and utilise?<sup>5</sup>

17.6 Facing the same quandary, the ANZ maintained that the issue for them is how to reconcile the economic imperative of making an adequate return on capital in the current context with the obligations it believes it has to the communities in which it operates as well as to the broader community.<sup>6</sup>

## Financial institutions and community obligations

17.7 Although the banks accept that they have a social responsibility and claim that they have taken measures to fulfil this obligation, there is a widely-held view that they have deserted the rural and remote areas of Australia primarily because of the desire to

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4 Dr David Morgan, Chief Executive Officer, Westpac Banking Corporation, Committee for Economic Development of Australia, Sydney, 21 August 2000, p. 7. Mr Leon A. Davis also commented on the community's high expectations of banks. He stated 'bankers are conscious of their social responsibility. At Westpac it is an integral part of the way we do business and we do know that we need to focus on the needs of Australians in regional Australia. We at Westpac believe that unless financial institutions expand their view of what constitutes socially responsible behaviour they will soon lag global best practice for their industry. We do not intend to lag best practice, if only because to do so invites re-regulation with its associated costs and inefficiencies.' Mr Leon A. Davis, Chairman, Westpac Banking Corporation, Deputy Chairman, Rio Tinto, 'The Social Responsibilities of Corporations, Address to the Menzies Research Centre, Melbourne, 18 May 2001.

5 Frank Cicutto, Managing Director & Chief Executive Officer, National Australia Bank, Communitylink Speech Notes, Melbourne, 24 October 2000.

6 *Submission* 121, p. 3; See also CPS Credit Union, *Submission* 59, p. 3.



maximise profits. At the moment they do not enjoy the confidence and support of Australian consumers.<sup>7</sup>

17.8 The Uniting Church Synod of South Australia submitted that the ‘policies of successive governments have given the financial sector scope to avoid social responsibility’. In its opinion, this has resulted in ‘the erosion of the position of banks in the Australian community and increased burden on those sectors of the community that are least equipped to bear the social costs’. It believes that the policies of consecutive governments in relation to the financial sector have precipitated market failure which calls for government intervention.<sup>8</sup> Taking a similar view, Mr Anthony Beck from the Financial Services Sector Union asserted that:

...going back over the last ten years, the major banks have been allowed to acquire and aggregate all the regional and state banks and create a market in their own image and, in oligopolistic fashion, set the price, dominate the market and decide where they will or will not provide a service.<sup>9</sup>

17.9 Mr Peter Emery, Central Local Government Region of South Australia Inc, raised an interesting aspect of the privatisation of banks. He noted:

In this state we used to have two government owned banks. That used to be one way in which we as a community could influence what happened in banking. The State Bank used to help cooperatives and all sorts of things. We do not have that particular lever anymore. We have decided that we do not want the government to be involved in even minor ways in these sorts of entities. We have cut ourselves off from one major source of influence, which I personally think is unfortunate—but that is perhaps an old-fashioned view.<sup>10</sup>

17.10 Clearly a number of witnesses felt that firstly banks are not listening to their concerns and secondly that the customer has lost a say in how these major institutions conduct themselves in their communities. Further, that governments in stepping away

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7 Comments on this matter can be found in many sources including newspaper reports and academic and professional journals. The Lockhart Shire Council submitted that ‘Banks appear to be driven solely by bottom line issues and have no regard for the social structure or stability of towns or suburbs, *Submission 25*, p. 2. Mr Graeme Samuel also referred to the perception in many rural communities ‘that banks don’t care about them, and that new services were only offered under pressure.’ Graeme Samuel, President, National Competition Council, ‘A Changing Australia: The Business and Social Imperatives’, presentation to the Institute of Chartered Accountants in Australia, Business Forum 2001, Melbourne, 21 May 2001, p. 9. See also Australian Bureau of Agricultural and Resources Economics (ABARE), *Australian Farm Surveys, Report 2001*, May 2001, p. 39, which found that farmers perceived that banking services had worsened since 1990. William Phillips, former banker, wrote that there is a strong perception the Australian banks have put shareholders first. *Journal of Banking and Financial Services*, August 2002, p. 10.

8 *Submission 84*, p. 14.

9 *Committee Hansard*, 26 February 2003, p 267.

10 *Committee Hansard*, 13 March 2003, p. 431.

from direct involvement in the banking industry have left consumers to look after their own interests. The witnesses believe that banks do have a responsibility to the community but are not being made to meet that obligation.

### ***Minimum standards expected of financial institutions***

17.11 The Committee heard a range of opinions on the extent to which banks have a responsibility to the community. Many submissions held the view that banking services should be considered essential—a necessity of everyday life.<sup>11</sup> The following section attempts to define what should be regarded as an essential service and to determine what submissions mean when they refer to minimum standards.

17.12 While a number of submissions and commentators wrote in general terms about the social obligations on banks to provide adequate banking services, others were prepared to quantify their understanding of minimum standards. The Holroyd City Council maintained that because the provision of financial and banking services is an essential service, banks must provide affordable face-to-face banking services.<sup>12</sup> Mr Beck asserted that ‘A transactional capacity is a fundamental human right, in our view, or a civilian right. It is like access to power or water’.<sup>13</sup> Along similar lines, Mr Chris Connolly and Mr Khaldoun Hajaj maintained that the bank account is the most basic and the most important financial service for most Australians. They argue that ‘the provision of a bank account is essential for receiving pay and benefits and making and receiving payments’. In summary, they submitted:

Having a bank account is no longer a mere convenience—it is a prerequisite for engaging in the economic process.<sup>14</sup>

17.13 The notion of equity also figured prominently in the argument for improved services to country Australia. The Local Government Association of Tasmania stated simply:

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11 The East Gippsland Shire Council was one of the many submissions that regarded banking and financial services as an important part of the totality of services to rural communities, *Submission 75*, p. 2. The Crookwell Shire Council and the Goulburn Shire Council maintained that banking services are considered to be an important base service for communities, *Submission 57* and *Submission 41*, p. 1. The Local Government Association of Tasmania asserted that it is imperative that a minimum standard of financial service is provided to Tasmania’s communities, *Submission 43*, p. 1. The Gunning Shire Council echoed these words, *Submission 56*, p. 1 and see also *Submission 75*, p. 5.

12 *Submission 18*, p. 3.

13 *Committee Hansard*, 26 February 2003, p. 270.

14 Chris Connolly and Khaldoun Hajaj, *Financial Services and Social Exclusion*, Financial Services Consumer Policy Centre, University of New South Wales, March 2001, p. 4. The Municipal Association of Victoria maintained that banking Institutions should be required to provide at least a reasonable coverage of community requirements so that no branch should be closed without ensuring that there are alternatives available which provide for after hours depositing of money, ready cashing facilities for cheques, cash withdrawal facilities with easy access. The Municipal Association of Victoria, *Submission 114*, p. 4.

The provision of alternative banking and financial services solutions for bank branch closures fails the concept of equity of services for all Australians. The alternative arrangements are simply not adequate to meet the needs of the community on an everyday basis.<sup>15</sup>

17.14 Similarly the Swan Hill Rural City Council noted that ‘a key social consideration is equity of access to banking services, particularly for people living in regional Australia’.<sup>16</sup> The Yallarois Shire Council and the East Gippsland Shire Council also referred to the issue of social equity and the entitlement of rural communities to the same banking and financial services as metropolitan and larger regional areas.<sup>17</sup>

### **Committee view**

17.15 The Committee believes that banking and financial service providers should strive to deliver the same level and quality of service to country Australia as they provide to metropolitan areas. It accepts that in some cases this objective cannot be achieved on a commercially viable basis. Nonetheless, the Committee believes that access to a basic banking service is an essential service—that all Australians should have affordable and ready access to a deposit account that receives funds and can be used to make payments.

17.16 In communities where it is commercially unsustainable for banks to provide face-to-face banking services, the Committee believes that the banking industry has an obligation to take all reasonable measures to ensure that consumers can access their accounts through alternative service channels. In the Committee’s view this obligation extends to:

- working with and providing assistance to communities to find satisfactory solutions to their banking problems;
- ensuring that the facilities substituting for the traditional branch service are appropriate and affordable for the residents of the community and provide a safe, secure and reliable service;
- providing the education and training necessary for consumers to use the alternative means of accessing their accounts effectively and confidently; and
- ensuring that bank practices such as charges and fees and interest rates on loans do not discriminate against people in regional, rural and remote Australia.

### **Community Service Obligation**

17.17 Having identified the minimum standards required of the banking industry, the question arises about how they can be achieved. A number of participants to the

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15 *Submission 44*, p. [5].

16 *Submission 13*, p. 1.

17 *Submission 75*, p. 5 and *Submission 23*, p. 1.

inquiry wrote in general terms about imposing a social charter or community service obligations on financial institutions.<sup>18</sup> The submission from the Council of the City of Ballarat was among a number arguing that banks ‘must embrace an ethical approach to their dealings with customers’. It stated that ‘this is not only an appreciation of the customer’s rights, but an acceptance of a duty to the customer’.<sup>19</sup> It supported the idea of a social contract and maintained:

By recognising that ethical business is also good business, the financial services sector will strengthen its relationship to the customer, not weaken it to the point where there is no understanding of the value of a non-nationalised financial services sector.<sup>20</sup>

### ***Imposing a community service obligation***

17.18 While a number of witnesses suggested that banks should observe minimum standards, others were more certain in their approach to the adoption and implementation of a social charter by banks and advocated enforceable community service obligations. They wanted firm and direct action taken to compel financial institutions to be responsible. The Holroyd City Council believed that because the provision of accessible and affordable financial and banking services is crucial to the viability of all local communities it should be a community service obligation imposed on the banking and finance industry.<sup>21</sup>

17.19 The Manilla Shire Council agreed with this view. It maintained that the banks were not meeting the unique and specific needs of the people living in its district and must be forced to meet their obligations to the communities they serve.<sup>22</sup> It stated that ‘once again it is obvious that more regulation regarding the banking sector from the Federal Government is necessary—especially regarding the banking and financial services that are offered (or not offered) in the rural area of the Manilla Shire Council’.<sup>23</sup>

17.20 The Council of the City of Ballarat, the Narrandera Shire Council and the Lockhart Shire Council supported the idea of imposing a social charter on banks. They

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18 For example, the Winton Shire Council believed that there is ‘a need for traditional banking services at present and for the foreseeable future, while infrastructure needs are addressed, and to allow generational adaptation to significant technology change’. It recommended that some sort of community service obligation for the banking sector, with a requirement across the sector to ensure that traditional banking service needs are met. *Submission 27*, p. 2.

19 *Submission 76*, p. 2.

20 *Submission 76*, p. 2.

21 *Submission 18*, p. 2.

22 *Submission 91*, pp. 2–3.

23 *ibid.*

wanted some way to require the banks to accept a greater degree of social responsibility.<sup>24</sup>

### ***Licensing requirement***

17.21 A number of community representatives proposed that the licensing system be used as the mechanism to enforce social obligations. Councillor Peter Woods was of the opinion that the responsibility to ensure that banks fulfil their obligation to the community really belongs to the Federal Government which could easily achieve the required level of community service obligation by embedding it as a banking licence requirement.<sup>25</sup>

17.22 The Finance Sector Union of Australia adopted a similar approach. It suggested that Australia's banks will not behave in a socially responsible way unless forced to by legislation and therefore recommended that the Government introduce legislation to impose social obligations on Australia's banks.<sup>26</sup> Mr Anthony Beck asserted:

...having a banking licence...is a very particular authority and privilege to have in the Australian economy. With that comes certain responsibilities. The industry is regulated in a way that demonstrates that it has a particular place in the smooth functioning of the Australian economy. It has a whole range of privileges and, we say, comes with very high returns for shareholders, executives and directors. But there must also be some responsibility attached to it and we simply cannot see, through the Banking Act or the Trade Practices Act, any meaningful, effective capability for rural communities and the people that I represent to actually make the banks accountable in any way.<sup>27</sup>

17.23 The Holroyd City Council, the Macedon Ranges Shire Council, the Cabonne Council, and the Tamworth City Council also advocated imposing community service obligations on banks as a licensing condition or through legislation to ensure that they honour their social obligation to small rural communities.<sup>28</sup> Some wanted even stronger action.

### ***Stronger government intervention***

17.24 The Uniting Church believed that it would be appropriate for government to regulate the financial sector to ensure it delivers services that meet an appropriate level of social responsibility. It proposed that the Government pursue a range of

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24 *Submission 76*, p. 2; *Submission 36*, p. 1; *Submission 25*, p. 2.

25 Councillor Peter Woods, President Local Government Association of NSW, *Focus*, February 2000, <http://www.loc-govfocus.aus.net/2000/february/presgr.htm> (23 December 2002).

26 *Submission 69*, p. 11.

27 *Committee Hansard*, 26 February 2003, p. 269.

28 *Submission 18*, p. 3; *Submission 54*, p. 2; *Submission 85*, p. [2] and *Submission 93*, p. 3.

measures such as: the establishment of a publicly owned bank similar to the original Commonwealth Bank; cease guarantees for deposits to profit-oriented banks; and issue a compulsory code of conduct for banks.<sup>29</sup> It suggested that the code include ‘the expectation that banks would negotiate amongst themselves to leave a branch operating in rural townships according to a framework of criteria which would take account of population size and geographical isolation from other services’.<sup>30</sup>

17.25 The Shire of Kellerberrin pointed to the unprecedented profit being made by banks and asked why they should not be required to have a certain proportion of their branches located in rural and regional areas in Australia.<sup>31</sup> Another submission recommended that all institutions that conduct ‘banking’ business be required to contribute to a pool that would be used to establish, service and maintain ATM facilities in all towns with a permanent population in excess of 100. Such ATMs would accept cards from all participating banks.<sup>32</sup>

17.26 As stated earlier, the Committee holds the view that there should be no impediment to an Australian holding a transaction account and being able to deposit and withdraw from that account with ease of access and without undue expense. The Committee has put forward a number of recommendations in this report to ensure that customers have access to adequate banking services; are well informed about alternative ways of banking and have the level of education and training necessary to use banking and financial services effectively and confidently. Furthermore, it has made recommendations about ensuring that people, including older Australians and those with a disability, have easier and safer access to equipment.

17.27 In making these recommendations, the Committee has not considered it necessary that the changes proposed should be enforceable under legislation. While it is mindful of the weaknesses in industry self-regulation, the Committee would first like to see the standards clearly articulated in the industry’s code of practice and adopted by the financial sector industry. In some cases, for example with EFTPOS, ATMs, telephone banking and internet banking, industry standards have been formulated.

17.28 Second, the Committee would like to see the vigilant monitoring of the practices of financial institutions and their observance of the various undertakings detailed in the Committee’s recommendations. It would prefer an independent oversight body to monitor and report on the behaviour of banks to ensure they are meeting their obligations. But rather than involve ASIC or ACCC in the process at this stage, the Committee believes that as a start this task could be undertaken by the Australian Bankers’ Association keeping in mind the option to transfer this responsibility to an independent agency should the ABA fall short of expectations.

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29 *Submission 84*, p. 14.

30 *Submission 84*, p. 14.

31 *Submission 52*, p. 2.

32 Robin Borton, *Submission 46*, p. 2.

The Committee notes here the establishment of the Financial Consumer Agency of Canada (see paragraphs 17.59–17.61).

17.29 No mention was made during the course of the inquiry on the part taken by the Banking and Financial Services Ombudsman in ensuring that people living in regional, rural and remote Australia have access to adequate banking services. The role of the Ombudsman is ‘to provide an accessible, independent dispute resolution service to individual and small business customers of financial services providers’. The main emphasis appears to be on settling claims involving a financial loss of less than \$150,000.<sup>33</sup>

17.30 The Committee believes that the role of the Banking and Financial Services Ombudsman should not be ignored in any consideration about which agency should have the responsibility to monitor the conduct of banks in meeting the banking and financial services needs of the community. It may well be that the jurisdiction of the Ombudsman should be expanded or made more explicit to incorporate a much broader range of consumer interest such as ensuring affordable and ready access to financial services.

17.31 The Committee notes that the current banking code of practice requires the ABA to establish, and for the signatories to the code to support a forum, for the exchange of views on banking issues and the effectiveness of this code. The forum is to include consumer, small business and banking industry representatives.<sup>34</sup>

## **Recommendation 29**

**The Committee recommends that the forum established under the banking code of practice, which comprises consumer, small business and banking industry representatives, meet to consider and report publicly on the jurisdiction of the Banking and Financial Services Ombudsman and whether it should be broadened to examine complaints about the difficulties encountered by consumers in accessing banking services.**

## **Recommendation 30**

**Rather than suggest the development and imposition of community service obligations, the Committee has recommended a number of amendments to the current Banking Code of Practice which would in effect set down minimum standards of behaviour expected of the banks. The Committee recommends that the banking industry move quickly to incorporate them in its code of practice.**

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33 The Australian Banking Industry Ombudsman, *Jurisdiction*, <http://www.abio.org.au/ABIOWeb/ABIOWebSite.nsf/Level1Docs/B8092D217D3432> ... (12 September 2003) and the Australian Banking Industry Ombudsman, *Personal information about third parties to disputes* <http://www.abio.org.au> (12 September 2003).

34 Australian Bankers' Association, *Code of Banking Practice*, para 5.3. August 2002.

**The Committee recommends that while the banking industry is considering amendments to the Banking Code of Practice, the Australian Government provide further impetus to this process by consulting with all sectors of the banking industry on progress toward improving the industry's code of practice.**

**The Committee recommends that should progress falter on the banking industry improving its code of practice, the Government take a stronger stand by considering imposing community service obligations on ADIs with an independent regulatory body to monitor and report breaches of the obligations.**

### **Access to finance and financial advice**

17.32 The report has focused mainly on the availability of basic banking services. The provision of financial services is also an important matter but one which has been overshadowed by the more immediate concerns with the provision of basic transactional services. A number of submissions raised this broader and important issue of the provision of financial services such as financial advice and lending. The City of Ballarat noted:

Whilst people want to withdraw and deposit money, pay bills and transfer funds, they also want advice. Traditionally the bank was not just a place to do business, but a place that was involved in the welfare of the community, not only as a local employer, but as an adviser to the community.<sup>35</sup>

17.33 ACCORD urged the Committee to pay attention to the needs, level and types of financial services being provided to business and community enterprises in rural and remote areas, and focus its recommendations on addressing these service needs.<sup>36</sup>

### **The banks as invigorators and sustainers of social capital**

17.34 The provision of financial services includes not only access to advice but to finance. The report has found that individuals and businesses in areas of regional, rural and remote Australia do not have the same opportunities as those in metropolitan areas to obtain finance.<sup>37</sup> The problem of access to finance, particularly for local businesses, was evident in Indigenous communities where a number of community representatives made clear that there is a funding gap.<sup>38</sup> The following section looks more closely at the involvement of banks in providing venture or seed capital to areas that have trouble attracting investment.

17.35 On the matter of encouraging local business and enterprise capacity, ACCORD submitted that, it is necessary that business, including social or community enterprises, have access to finance. It referred to the difficulties facing small business

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35 *Submission 76*, p. 2.

36 *Submission 80*, p. 1.

37 See for example, Chapter 3, paragraphs 3.42–3.51 and Chapter 16, paragraphs 16.62–16.70.

38 Chapter 16, paragraphs 16.62–16.70.



and social enterprises in accessing finance because of ‘lending and collateral requirements, lack of institutional understanding of their businesses and decreasing financial services’.<sup>39</sup>

17.36 In its opinion, limited access to venture capital is a particular problem for regional businesses. It found that those regional businesses that have grown are still disadvantaged in comparison with their metropolitan counterparts, particularly in the areas of access to finance and business support.<sup>40</sup> Some local councils supported this view regarding the lack of access to investment capital in regional, rural and remote areas (see chapter 3, paragraphs 3.47–3.51 and chapter 16, paragraphs 16.61–16.70). The Council of the City of Ballarat summarised their main argument when it submitted that ‘in the pursuit of reduced costs, increased profits and dividends to shareholders, and maximum return on investment, the financial services sector has lost sight of its role as an invigorator and sustainer of social capital’.<sup>41</sup>

17.37 ACCORD suggested that the Government should encourage improved access to financial services for regional businesses and fund further development of alternative equity markets.<sup>42</sup> It could promote greater understanding in financial markets of regional opportunities and confidence in pursuing regional investment.<sup>43</sup>

17.38 Before any steps can be taken to address the problem of access to finance in rural and remote districts, there needs to be a comprehensive understanding of the needs and potential of business in these areas and the role that financial institutions have, or could have, in promoting economic development. At the moment, there is simply insufficient information available on the lending practices of individual banks in specific communities and the contribution they make to the economic regeneration of underdeveloped areas.

17.39 In 1999, the Productivity Commission saw a greater role for governments in helping to overcome information gaps about prospects for investment and

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39 *Submission 80*, p. 2.

40 The Interim Report of the Steering Committee on the Summit on Regional Australia, p. 3 of 6, <http://www.dotrs.gov.au/regional/summit/outcomes/committee/report/development.htm> (29 October 2002).

41 *Submission 76*, p. 2.

42 The Committee notes that government grants were made to assist in the establishment of the Newcastle Stock Exchange and the Bendigo Stock Exchange which opened their doors for trading in 2000.

43 The Interim Report of the Steering Committee on the Summit on Regional Australia, p. 5 of 6, Economic and Business Development in Regional Communities <http://www.dotrs.gov.au/regional/summit/outcomes/committee/report/development.htm> (29 October 2002).

employment, facilitating self-help initiatives, removing impediments to development and improving policy coordination.<sup>44</sup>

17.40 Taking up this matter of the quality of information, ACCORD argued that the capacity for accurate and relevant business and government planning is limited by the absence of small area and regional data on the economic characteristics (size, assets and employment) of businesses and enterprises. It maintained that business and government planning would also be assisted by the availability of information on loans and general services provided by banks and other financial institutions to enterprises in regional areas or particular post codes.<sup>45</sup> As a consequence it recommended that:

greater government resources be devoted to collecting information about businesses and financial information at the local and regional level and from banks and other financial institutions regarding loans and equity provided to small business and regional enterprises.<sup>46</sup>

17.41 Similarly, the Australian Chamber of Commerce and Industry has highlighted the serious deficiencies in the information available to assist communities and businesses plan for their economic future. It stated:

In all of the information and analysis published on regional development there has been little available data that look specifically at regional business performance and at what influences regional business activity.<sup>47</sup>

17.42 Anecdotal evidence to the Committee suggests that the market has failed to deliver to small business in country Australia with a few exceptions such as the agribusiness sector. Further, that market-based solutions alone are unlikely to address all such failures. However, the lack of data on bank lending practices and the potential markets for small business in regional Australia presents a major difficulty for the Committee to draw firm conclusions on:

- the current size and source of investment in regional, rural and remote Australia and its effect on regional business activity;

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44 Productivity Commission, *Impact of Competition Policy Reforms on Rural and Regional Australia*, Inquiry Report, no. 8, 8 September 1999, p. xl.

45 *Submission* 80, p. 4.

46 *Submission* 80, p. 4. See also Evan Jones, 'Rural Finance in Australia: a Troubled History', *Rural Society*, vol. 12, no. 2, p. 171. Bernard Salt also considered that rural Australia is disadvantaged by the way in which social and economic data is collected. He argued that 'until a single, reliable set of data is established, the plight of service provision in rural Australia will remain little more than anecdotal.' 'People erosion hits small-town wheat lands', the *Australian*, 25 February 2000.

47 Regional Development: the Role of Governments, *ACCI Review*, November 2002, vol. 93, p. 3.

- the role that the various financial institutions have in assisting under-invested communities and their potential to improve their contribution to the economic growth of such areas;
- the extent to which the competitive pressures at work in country Australia are ensuring that small business is receiving fair and adequate access to finance and financial advice; and
- whether government intervention is required to ensure that under-invested communities do receive adequate access to financial services and, if it is required, the form that intervention should take.

17.43 The Committee acknowledges the criticism that there is inadequate information on the financing needs of small business in regional Australia and the supply of finance available to them. It accepts that the want of data frustrates any constructive analysis of the assistance provided by financial institutions toward the commercial life of regional, rural and remote Australia and whether it meets the needs of country Australia. It believes that as a first step toward the development of an effective policy in this area there is a need to establish a comprehensive data base of lending practices by financial institutions in regional, rural and remote areas of Australia.

### **Recommendation 31**

**The Committee recommends that the Australian Government consider ways to collect, analyse and publish data on the state of business activity in rural, regional and remote Australia; the availability of venture capital or seed funding to these areas; and the contribution that financial institutions are making to the commercial development of country Australia.**

### **Overseas models**

17.44 In response to the dramatic changes taking place in the financial services industry, a number of overseas countries have considered and put in place measures to widen access to capital and other financial services for those living in areas not well served by mainstream banking sources. Their main objective is to stimulate sustainable local commercial activity. The Committee looks at the experiences of three such countries—the United Kingdom, the United States of America and Canada.

17.45 The three countries have initiated a range of measures to promote community development finance programs to combat financial exclusion of disadvantaged groups. They recognised that the lack of access to commercial financial services, appropriate business advice, affordable loans and venture capital retards economic growth for areas not well served by other capital markets. Rather than undertake an overall appraisal of the regulatory regime in the three countries, the Committee has focused on one particular aspect most relevant to the inquiry—the availability of finance and financial advice to areas not well served by financial institutions.

## ***The United Kingdom***

17.46 The Government of the United Kingdom strongly supports Community Development Finance Institutions (CDFIs) which are recognised as an effective means of providing capital to deprived areas and underserved markets unable to obtain conventional mainstream finance.

17.47 CDFIs are independent financial organisations funded from a variety of sources including ‘individuals, and charitable foundations as well as banks and government’.<sup>48</sup> They are intended to be ‘pump primers’, seeking out and supporting individuals or groups with promising business prospects, so they become part of the mainstream financial world.<sup>49</sup> Their support makes it possible for new enterprises to grow, generate income and employment. Although committed to marginal businesses, they are concerned with financial as well as social return on their investment. The UK Investment Task Force explained:

to be eligible as a CDFI, the institution’s mission must be focused on community development, i.e. it must serve either low- and moderate-income people and/or low- and moderate-income communities. The primary activity of a CDFI is lending or investing in community revitalisation.<sup>50</sup>

17.48 The Government has established a national Phoenix Fund designed to encourage entrepreneurship in disadvantaged areas. Some of the funds are made available to CDFIs to enable them to develop their core activities of providing finance and advice to enterprises from disadvantaged communities.

17.49 The United Kingdom also has a well-established loan scheme for small business to fill a recognised gap in the market for small firms to access finance.<sup>51</sup> Called the Small Business Service Small Firms Loan Guarantee scheme, it is administered by the Small Business Service (SBS) which guarantees loans from the banks and other financial institutions for small firms that have a viable business proposal but who have tried and failed to obtain a loan because of lack of security. The SBS guarantees 75 per cent of the loan.

17.50 There is also growing interest in the role that disclosure of lending policies could have as an incentive for banks to become more involved in assisting areas to obtain finance. The UK Social Investment Task Force recognised in its recommendations to the Chancellor of the Exchequer the need for banks to provide

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48 UK Social Invest Forum, *Community Development Finance Institutions: a new financial instrument for social, economic and physical renewal*, London, 2002.

49 Social Investment Task Force, *Enterprising Communities: Wealth Beyond Welfare*, London, October 2000, p. 23.

50 Social Investment Task Force, *Enterprising Communities: Wealth Beyond Welfare*, London, October 2000, p. 30.

51 See for example Business Link, *SBS Small Firms Loan Guarantee*, <http://www.businessadviceonline.org/cgi-bin/bv1/details.jsp?POID=1073755656&pc> (29 April 2003).

‘much more detailed, individual disclosure’ of their lending activities in under-invested areas, and ‘to sponsor the creation of a rating system to reward excellent performance’.<sup>52</sup> It further suggested that if voluntary disclosure is not made quickly, the government should require disclosure in the manner of the USA Community Reinvestment Act.<sup>53</sup>

17.51 Following up on this recommendation, the UK Treasury put the case to the banks for more transparent disclosure of individual lending activities to business in disadvantaged areas. The British Bankers’ Association has published information on bank lending in deprived areas and is seeking views on how the exercise can be refined for subsequent years.<sup>54</sup>

### ***United States of America (USA)***

17.52 The tenet underpinning USA legislation, and clearly articulated in statute, is that regulated financial institutions serve the convenience and needs of the communities in which they are chartered to do business including the need for credit services as well as deposit services.<sup>55</sup>

17.53 In the USA, the Community Reinvestment Act (CRA), passed in 1977, is designed to assist disadvantaged communities obtain private capital. The legislation requires banks to satisfy the service and credit needs of the entire community, including those on low and moderate incomes. The legislation is intended to put regulatory pressure on banks to make loans in low-income communities and takes a three-pronged approach:

- Disclosure—the legislation requires each bank depository institution to keep a record of the assistance it has provided to meet the credit needs of its community.
- Assessment in the form of ratings—the records are examined periodically by the regulators and banks are allocated points for their performance in lending to low-income individuals and communities.<sup>56</sup>

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52 Social Investment Task Force, *Enterprising Communities: Wealth Beyond Welfare* A Report to the Chancellor of the Exchequer, Executive Summary, Recommendation 3, October 2000.

53 *ibid.*, Executive Summary, Recommendation 3. An update dated July 2002 stated that ‘The British Bankers’ Association intends to publish information on bank lending in deprived areas this year. Data will be presented by post-code, building on the information published by the Bank of England. They would welcome views on how the data might be used by stakeholders involved in the local regeneration agenda, so that they can refine the exercise in subsequent years.

54 Social Task Force, *Enterprising Communities: Wealth Beyond Welfare, Progress Report*, July 2001, December 2001 and July 2002.

55 US Code Collection, Chapter 30—Community Reinvestment, <http://www4.law.cornell.edu/uscode/12/ch30.html> (25 March 2003).

56 This performance rating scheme is not without its critics. See Allen J. Fishbein, ‘What’s next for CRA?’, *Journal of Housing and Community Development*, Washington, vol. 60, issue 4,

- Sanctions for poor performers—the grade or rating is taken into account by the regulators when an institution applies for regulatory approval to expand its deposit facilities including mergers and acquisitions.

17.54 Many regard the CRA as an important tool to help underserved communities gain access to mainstream financial services providers.<sup>57</sup>

17.55 The US also has a long history of Community Development Finance Institutions (CDFIs) which began taking shape in the early 1970s.<sup>58</sup> At that stage, CDFIs received their capitalisation from government or philanthropic sources rather than mainstream institutions.<sup>59</sup> According to one study, CDFIs served as connecting points between the mainstream finance world and low-income communities. It found that:

Many CDFIs engage in loan packaging, loan brokering or sale of loan participations to mainstream institutions and investors that lack the capacity to find and underwrite community investments themselves.<sup>60</sup>

17.56 CDFIs in the US received significant support when Congress approved the establishment of a Community Development Finance Institution fund in 1994 which provided assistance to certified CDFIs in a variety of forms, including ‘equity investments, deposits, loans, grants and technology assistance’.<sup>61</sup> At first CDFIs concentrated on affordable housing but have expanded their activities to include small business and community service loans.

## **Canada**

17.57 Canada has also in recent years reviewed its legislation governing the financial services sector. A report by the Canadian National Council of Welfare titled *Banking and Poor People: Talk is Cheap* released in 1998 deals with the issues of

July/August 2003; Reynold F. Nesiba, and Nathan Golz, ‘Sioux Falls, Citibank, and CRA: Do US credit banks deserve their “outstanding” community reinvestment performance evaluations?’, *Journal of Economic Issues*, vol. 36, issue, 2, Lincoln, June 2002.

57 *ibid.*

58 K Moy and A. Okagaki, *Changing Capital Markets and Their Implication for Community Development Finance*, prepared for the SURDNA Foundation, The Brookings Institution, 2001, p. 5.

59 K Moy and A. Okagaki, *Changing Capital Markets and Their Implication for Community Development Finance*, prepared for the SURDNA Foundation, The Brookings Institution, 2001, p. 8.

60 K Moy and A. Okagaki, *Changing Capital Markets and Their Implication for Community Development Finance*, prepared for the SURDNA Foundation, The Brookings Institution, 2001, p. 17.

61 G. Alperovitz, *Broadening Ownership of Productive Assets: Time for a Major Collaborative Transformative Effort*, <http://www.capitalownership.net/lib/alperovitzConferencePaper.htm> (14 July 2003).

closures of bank branches in poorer areas and the lack of service by banks to welfare recipients.<sup>62</sup>

17.58 The report argued that many of the problems of the financial services sector cannot be overcome through the rigours of the market, and that competition and disclosure will not ensure good service at low prices for people in disadvantaged areas. The report argued that government intervention is required from time to time to ensure that financial institutions fulfil their obligations to the entire community, which includes providing reasonable service to people in all parts of the country.<sup>63</sup>

17.59 Canada has adopted a new framework covering a wide range of aspects of financial services. Of relevance to this inquiry are the measures to provide better protection for consumers. The Canadian government was of the view that a regime similar to that established under the CRA was not warranted in Canada but that other mechanisms could be used to promote accountability. In June 2001, Bill C-8—the *Financial Consumer Agency of Canada Act* was passed by the Canadian Parliament. While this legislation introduced a range of consumer protection measures, including the establishment of the Financial Consumer Agency of Canada (the Agency), it stopped short of introducing comprehensive requirements such as those in the US.

17.60 Subsection 3(2) of the Act sets out the objects of the Agency, which include *inter alia*:

- (c) monitor the implementation of voluntary codes of conduct that are designed to protect the interests of customers of financial institutions, that have been adopted by financial institutions and that are publicly available and to monitor any public commitments made by financial institutions that are designed to protect the interests of their customers;
- (d) promote consumer awareness about the obligations of financial institutions under consumer provisions applicable to them; and
- (e) foster, in co-operation with any department, agency or agent corporation of the Government of Canada or of a province, financial institutions and consumer and other organizations, an understanding of financial services and issues relating to financial services.<sup>64</sup>

17.61 Other measures of interest to this inquiry are:

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62 National Council of Welfare, Canada, *Banking and Poor People: Talk is Cheap*, Summer 1998, available at <http://www.ncwcnbes.net/htmldocument/report%20Banking/reportbanking.htm>

63 *ibid.*, p 3.

64 *Financial Consumer Agency of Canada Act*, 2001 C9, available at <http://laws.justice.gc.ca/en/f-11.1/57856.html> The other objects of the Agency are to:

- (a) supervise financial institutions to determine whether they are in compliance with the consumer provisions applicable to them;
- (b) promote the adoption by financial institutions of policies and procedures designed to implement consumer provisions applicable to them.



- The requirement for banks with equity in excess of \$1 billion to publish annual Public Accountability Statements. They are to include ‘information relevant to the public, including the number of employees, small business financing initiatives, charitable contributions, efforts to improve access to banking services and the location of branch openings and closings’.<sup>65</sup>
- The requirement for Statistics Canada to collect and publish data on the supply of debt and equity financing to SMEs.<sup>66</sup>

### *Lessons for Australia*

17.62 Evidence presented to this Committee strongly indicates that there is a need for business banking services which is not being met by the current banking system, particularly in remote and very remote Indigenous communities. In some cases the issue is not so much the withdrawal of banking services but the lack of any services in the first place.

17.63 Other jurisdictions, including the UK, the USA and Canada are facing similar problems as those in Australia, in terms of access to banking facilities, closure of branches and loss of services in rural, regional and remote areas. Because of its size and population distribution, as well as the nature of its banking system, Canada is probably the most broadly comparable country to Australia.

17.64 The crux of the problem seems to be whether difficulties associated with access to adequate banking and financial services should be ‘solved’ by allowing market forces to reign, or by having the government intervene in some way. If intervention is thought necessary, the question then becomes one of what type of intervention is going to be most effective.

17.65 The CRA imposes a type of community service obligation on banks via regulation, requiring a financial institution to serve the entire community in which it operates. As the Centre for Aboriginal Economic Policy Research (CAEPR) recognised, the imposition of community service obligations on banks is not an easy thing. The alternative to regulatory restriction is relying on moral suasion to convince banks that in the longer term it would be good for business to look after disadvantaged communities.<sup>67</sup>

17.66 With reference to the CRA model, CAEPR’s view was that there seemed to be a ‘great deal of opposition to that sort of heavy-handed approach in the Australian context.’<sup>68</sup> CAEPR indicated that, in regard to Indigenous communities, governmental

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65 Department of Finance, Canada, *Reforming Canada’s Financial Services Sector—A Framework for the Future*, [http://www.fin.gc.ca/finserv/docs/finservpa\\_e.html](http://www.fin.gc.ca/finserv/docs/finservpa_e.html) (30 April 2003).

66 Department of Finance, Canada, *Reforming Canada’s Financial Services Sector: A Framework for the Future*, June 1999, p. 62.

67 Professor Jon Altman, *Committee Hansard*, 14 November 2002, p. 86.

68 Professor Jon Altman, *Committee Hansard*, 14 November 2002, p. 86.



intervention will be needed to assist these communities to become financially viable, partly because the communities are at such a disadvantage compared to the rest of Australia.<sup>69</sup>

17.67 It is clear that in comparison to the USA, UK and Canada, Australia does not have a clearly articulated policy on the provision of financial assistance and advice to areas not well-served by the financial markets. The work being undertaken by Westpac in the Cape York area is an example of a financial institution providing resources to encourage local enterprises and to stimulate the local economy. While commendable, this project, however, is an isolated example of what the Committee believes should be an established practice expected of all the major financial institutions undertaken in conjunction with government initiatives to assist communities with their banking and financial services needs.

17.68 The Committee acknowledges and fully supports the recent proposal put forward by the ABA for it to lead a tri-partite Round Table ('Remote Services Round Table'). In brief, the initiative is to involve relevant government agencies, in partnership with Reconciliation Australia, to draw up action plans to improve access to banking services in remote regions.<sup>70</sup> This proposal is in keeping with a number of the Committee's recommendations. For example, the Committee sees an important role not only for institutions such as the Traditional Credit Union but the major banks in encouraging and assisting Indigenous Australians to pursue a career in the financial services sector (see recommendation 25). Recommendations 26 and 27 are also particularly relevant.

17.69 While the Committee endorses the ABA's proposal and strongly encourages other possible participants to support the roundtable process, the Committee, nonetheless, would like to see concrete evidence of financial institutions taking a more hands-on approach to providing financial services to remote communities.

17.70 As noted above, the USA under the CRA places a disclosure obligation on banks. The British Bankers' Association has also acted on the Social Investment Task Force recommendation that banks disclose their lending activities in under-invested areas. Canada, while rejecting the CRA model, has taken steps to ensure that a comprehensive program of information collection and analysis is undertaken on the supply of debt and equity financing to SMEs.

17.71 Clearly, the three countries perceive advantages in requiring financial institutions to disclose information on their activities, including lending practices, in disadvantaged areas. The Committee considers that such a requirement would certainly improve the transparency of the lending practices of ADIs to disadvantaged areas in Australia and encourage them to take a more active role in providing such communities with financial assistance, advice and in stimulating local economic activity.

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69 Professor Jon Altman, *Committee Hansard*, 14 November 2002, pp. 83, 86–87.

70 *Supplementary submission 117A*, p. 2.

17.72 Westpac publishes a social impact report each year and has been doing so for two years. Mr Leon Davis, Chairman of Westpac, accepted that it exposes the institution to criticism but indicated that neither he nor the board were 'too worried'.<sup>71</sup>

17.73 The Committee believes the banking industry should promote public understanding of its work in disadvantaged areas of Australia. The Committee notes the work being done by Westpac in this area and the value that a social impact report could have in encouraging financial institutions to take a more active part in assisting disadvantaged areas with their financial needs. Further, it notes the approach taken by the USA, and the interest taken by the UK, in having a rating system as an incentive for banks to pay greater attention to the needs of disadvantaged areas.

### **Recommendation 32**

**The Committee recommends that the banking industry look closely at the disclosure requirements on financial institutions in the UK, USA and Canada regarding their involvement in providing finance to disadvantaged districts with a view to developing a disclosure regime for Australian banks. The intention of the regime would be twofold. Firstly to provide an accurate picture of the lending practices of banks to disadvantaged areas and secondly as an incentive for banks to assume a more active and constructive role in assisting residents and local businesses in disadvantaged areas, especially in country Australia, with their financial needs and to help invigorate their local economy.**

### **Recommendation 33**

**The Committee recommends that the Department of the Treasury also look closely at the disclosure requirements on financial institutions in the UK, USA and Canada in regard to their involvement in providing finance and other assistance to disadvantaged districts. Further that the department:**

- **monitor and determine whether the disclosure practices adopted by the banking industry in Australia ensure that adequate information is available about the contribution that individual financial institutions are making to assist rural, regional and remote Australia and whether the disclosure regime is encouraging banks to become involved in the economic development of such areas;**
- **determine whether the introduction of a rating system as specified in the CRA and outlined in the UK Task Force recommendation to the Chancellor of the Exchequer would have merit; and**
- **consider whether financial institutions should be under a legislative requirement to report on their activities in rural, regional and remote Australia.**

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71 Transcript, 'Interviews: Westpac's Persona', 'Business Sunday', 14 September 2003.

17.74 Before concluding this report, the Committee briefly mentions the role of local councils.

## Local Government

17.75 Local government bodies are taking an active role and have been successful in enticing financial institutions into their locality. In February 2000, Councillor Peter Woods, then President of the Local Government Association of NSW, asserted that the availability of banking and financial services is fundamental to community viability. He maintained that local government is about ‘building and maintaining prosperous and sustainable communities’. He argued that local government can and is responding in two key ways:

- Taking on a facilitative role to retain services and to attract alternative service providers. For example, councils have been instrumental in having banking services restored by credit unions and community banks in many locations.
- Taking a hands-on role involving the investment of Local Government resources and playing an active role in working out solutions. At a local level this has involved councils establishing agencies of banks and delivering banking services alongside council services.<sup>72</sup>

17.76 The Shire of Victoria Plains and the Nanango Shire Council are examples of councils that have stepped in to provide their residents with banking services. In both cases the establishment of the banking agency was at a cost to Council and recognised as a community service.<sup>73</sup> Throughout the report there are similar examples of local councils taking on responsibilities for providing banking and financial services including the role of educating and training local residents to use alternative ways of banking.

17.77 Mr Christopher Francis, City of Ballarat, noted the growing pressure on local councils to deliver a range of services from which other levels of government have chosen to withdraw or reduce funding. The same is happening with the withdrawal of private sector services. Mr Francis told the Committee that ‘there is the expectation that we will pick up those in some form, maybe through the provision of banking services with council offices, electronic funds transfer or other services.’<sup>74</sup> He made the point, however, that the role of local government is not to provide financial advice to people.<sup>75</sup>

17.78 Councillor Smith added the same cautionary note. He told the Committee that local government has to be careful about what it is about:

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72 Councillor Peter Woods, President’s comment, *Focus*, February 2000, <http://www.lgfocus.com.au/2000/february/presgr.htm> (23 December 2003).

73 *Submission* 49, p. 2.

74 *Committee Hansard*, 26 February 2003, p. 274.

75 *Committee Hansard* 26 February 2003, p. 276.

I do not think it is just peculiar to us in Queensland, but more and more services are being devolved down to local government from state government. I just wonder where local government's role really is...we have government services already now associated with local government—what was termed the Queensland Government Agent Program—such as transport licensing forms, through our QGAP office. We have got Rural Transaction Centres. These sorts of services are the things that local government is doing, over and above what is the norm of local government. As each day goes by, we find we are getting into different areas.<sup>76</sup>

17.79 Mr Barber, Latrobe City, stated that it was important for local government to interact very closely with the banks and other commercial organisations, credit unions and suchlike, to ensure that they try to help ratepayers, 'if there is a potential calamity we see coming'.<sup>77</sup>

## Conclusion

17.80 The Committee believes that ensuring the provision of adequate banking and financial services to regional, rural and remote Australia is the joint responsibility of the financial services sector and government with the active involvement of the community. It believes that ADIs do have a social responsibility to ensure that the communities they serve are provided with adequate services. It believes that there should be measures in place to guide, assist, even compel Australian ADIs to behave appropriately. The industry code of practice provides a major incentive for banks to observe minimum standards. The Committee has made recommendations to strengthen the protocol governing branch closures by, *inter alia*, requiring banks when considering branch closures to consult with the community and to release a community impact statement. It has also made recommendations to broaden the banking code of practice by including an undertaking that banks will take all reasonable measures to educate customers in the use and benefits of accessing banking services through new technologies. Further, that the code will offer practical guidance on some of the measures that banks could take to ensure that they are effective in meeting this commitment.

17.81 In turning to compliance, the Committee has recommended that the ABA take an active role in monitoring and reporting on the banks progress in improving its code of practice and in implementing the recently formulated industry standards. Furthermore, the Committee has recommended that the banks work together to minimize the costs associated with using a foreign ATM in country areas and to introduce a safety net basic account that provides benefits over and above those offered in the recent proposal developed by the ABA.

17.82 Governments also have an important role in ensuring that all Australians have reasonable access to banking and financial services. Their central function is to create

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76 *Committee Hansard*, 23 May 2003, p. 510.

77 *Committee Hansard*, 26 February 2003, p. 284.

a marketplace in which consumers are well-informed, their interests are protected and competition flourishes. The Committee believes that the Government has an obligation to intervene should the market fail to look after the needs of consumers especially in the area of access to banking and financial services.

17.83 To this end the Committee has made a number of recommendations that include improving the quality of data on, and analysis of, the availability of banking and financial services. It has recommended the continued funding of the RTC program, ongoing support for programs such as the Family Income Management Plan, and the introduction of an incentive scheme providing opportunities for Indigenous people to work in the financial services sector. The Committee has also recommended that the Government take a far more active role in monitoring and encouraging financial institutions to observe minimum industry standards and to express its readiness to implement stronger regulatory requirements should the industry fall short in meeting these standards. The Committee can see the advantages to be gained in placing requirements on banks to report on their work in disadvantaged communities and has asked the Department of the Treasury to consider the merits of a rating scheme.

17.84 In turning to the regulatory bodies, the Committee has recommended that—the ACCC examine the competition issues involved in switching bank accounts; ASIC investigate practices associated with book up in an effort to curb unscrupulous conduct; and ASIC and APRA examine and report on the compliance costs for smaller ADIs under the current regulatory regime in providing services to regional, rural and remote areas and whether they can be minimised without compromising consumer interests or prudential standards.

17.85 Overall, the recommendations are intended to improve competition in the retail banking industry, strengthen consumer protection and to encourage the financial services sector to assume a far more active and responsible part in promoting the economic welfare of people and their communities in regional, rural and remote Australia.

**SENATOR GRANT CHAPMAN**  
**CHAIRMAN**



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## United Kingdom

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- Social Investment Task Force, *Enterprising Communities: Wealth Beyond Welfare*, London, October 2000.
- UK Social Investment Forum, *Community Development Finance Institutions: a new financial instrument for social, economic and physical renewal*, London, 2002.

## United States of America

- US Code Collection, *Chapter 30—Community Reinvestment* <http://www.4.law.cornell.edu/uscode/12/ch30.html> (25 March 2003).
- Servon, L. L and Doshna, J P. *Structuring and Sustaining the Relationships that support U.S. Microenterprise Programs*, Edward J. Bloustein School of Planning and Public Policy, the State University of New Jersey, March 2000.

## Canada

- Department of Finance, Canada, *Reforming Canada's Financial Services Sector: A Framework for the Future*, June 1999.
- Department of Finance, Canada, *Canada's Banks*, August 2002.

Statutes of Canada 2001, Chapter 9, An Act to establish the Financial Consumer Agency of Canada and to amend certain Acts in relation to financial institutions, assented to 14 June, 2001.

Task Force on the Future of the Canadian Financial Services Sector, *Change, Challenge, Opportunity: Empowering Consumers*, Background Paper no. 3, September 1998.

Task Force on the Future of the Canadian Financial Services Sector, *Change, Challenge, Opportunity: Canadians' Expectations and Corporate Conduct*, Background Paper no. 4, September 1998.

Haggart, B., Laurin, A. et al, *Bill C-8: An Act to Establish the Financial Consumer Agency of Canada, and to Amend Certain Acts in Relation to Financial Institutions*, Parliamentary Research Branch, February 2001.

# **ADDITIONAL COMMENTS BY LABOR MEMBERS**

## **MONEY MATTERS IN THE BUSH**

1.1 Labor members welcome the Committee's report into banking services in regional, rural and remote Australia and generally support its recommendations. However, there are a number of matters which we consider require additional comment.

1.2 One of the main principles expressed in the report is that:

Access to a basic banking service is an essential service—and that all Australians should have affordable and ready access to a deposit account which receives funds and can be used to make payments.<sup>1</sup>

Labor members agree with this and have always advocated that banking is an essential service.

1.3 The level of monitoring of access to banking services and the cost of those services is an issue of concern to the Labor members. More needs to be done to ensure that the monitoring of such services is independent, rigorous and has appropriate stakeholder input.

1.4 While noting that services such as phone banking, EFTPOS, ATMs and giroPost are filling some of the gaps left in communities when banks have removed their branches—these alternatives are not always sufficient in some communities and the higher costs associated with consumers using some of these services is of real concern.

1.5 Labor members note that there is some inconsistency between the conclusions reached in this report and the report on the inquiry into foreign ATM fees and charges in respect to the potential for differential fees for rural or remote areas. In particular, the Committee report states that the obligations of the banking industry include:

...ensuring that bank practices such as charges and fees and interest rates on home loans do not discriminate against people in regional, rural and remote Australia.<sup>2</sup>

1.6 Labor members believe that this is at odds with Recommendation 1 of the Foreign ATMs Fees and Charges report that recommends the following:

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1 *Money Matters in the Bush*, Executive Summary, p. xxvii.

2 *ibid.*

safeguards that would ensure that people living in country towns and remote communities do not incur significantly higher fees or charges for using a foreign ATM and that an unreasonable or unwarranted differential in fees and charges between those in rural and remote areas and those in metropolitan areas does not develop.<sup>3</sup>

1.7 Labor members believe that this recommendation does not go far enough and does not ensure that the fundamental flaws in the ATM Industry Steering Group (AISG) model are appropriately dealt with. In Labor's view no differential in foreign ATM fees between different locations is reasonable or warranted. This qualification gives the ATM industry too much discretion to ramp up fees in rural regional areas.

1.8 Further comments on this issue are contained in the Labor members' separate report on Foreign ATMs Fees and Charges.

## **Comments on specific recommendations**

### ***Recommendation 3***

1.9 In respect to closure of rural or remote branches, Labor members support the Committee's recommendation for improved consultation and a notice period of six months to be provided if a branch, which is the only branch in a town, is to close.

1.10 Labor believes the six-month notice period should cover all branch closures, not just those in regional and rural areas.

1.11 While recognising the value of the proposed community interest impact statement that would be completed by a bank where a branch is to be closed, Labor members believe that the guidelines of any such impact statement need to be agreed with by appropriate government, industry, community and consumer groups. Without appropriate guidelines and some form of quality control of these impact statements their value may end up being quite limited. As a minimum the following stakeholder groups should be included in the process to develop guidelines and quality control measures for the community interest impact statement:

- Australian Local Government Association (ALGA)
- ASIC
- small business representative
- state governments
- consumer groups

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3 See Parliamentary Joint Committee on Corporations and Financial Services, *Report on the ATM Fee Structure*, January 2004, p. 23.



***Recommendation 4***

1.12 Labor members welcome the recognition by the Committee that the current system for the ‘points of presence’ database is not adequate. However there needs to be broader consultation with regional communities to ensure that reforms to the points of presence database are both adequate and encapsulate the needs of industry, government and the community.

1.13 Labor members share the Committee’s concern that there does need to be improved analysis and commentary on the information provided through the points of presence database. While the Committee has requested that another government agency, not APRA, be requested to do this, Labor members believe that APRA should have a role in analysing and commenting on the data but this should be done in conjunction with the ACCC. Given the ACCC’s role in assessing levels of competition in the banking services industry they would bring a good deal of expertise to any assessment of access to banking services.

***Recommendation 12***

1.14 Labor members support the priority placed on introducing industry standards that support older Australians and those with a disability to achieve full and equal access to services such as ATMs and EFTPOS.

1.15 However in respect to the monitoring of the implementation of these standards Labor members believe that any such monitoring should not be left solely in the hands of the ABA. To ensure adequate stakeholder input appropriate disability and older Australians advocacy groups should be both consulted on the process for monitoring the introduction of these standards and these groups should also be involved in the monitoring and reporting processes.

***Recommendation 22***

1.16 Labor members support the expansion of EFTPOS facilities to allow for access to account balances. However, there should not be an additional fee for this service and the balance information request should not be considered as a transaction where consumers can only access a limited number of free transactions.

1.17 This approach to EFTPOS balance enquiries is consistent with Labor’s call for the banks to introduce real time disclosure for ATMs and provide account balance information at no cost to the consumer.

**Banking and remote Indigenous Communities**

1.18 Much evidence was taken by the Committee on the difficulties confronting indigenous Australians regarding access to banking services and financial literacy generally. It is apparent that many remote and regional indigenous communities lack sufficient basic banking services. In some cases, it is not a case of services previously being enjoyed being withdrawn, but services not ever having been provided at all. As importantly, the lack of such services is compounded by factors such as remoteness,

socio-economic disadvantage (in some instances extreme), poor levels of numeracy and literacy (and accordingly low levels of financial literacy), cultural difference, and language barriers.

1.19 Labor members consider that access to basic banking services and minimum levels of financial literacy are preconditions to redressing the disadvantage experienced by many indigenous communities in remote and regional Australia. There is little point in governments encouraging indigenous Australia to achieve greater economic independence if the basic building blocks of economic development are not in place.

1.20 Accordingly, whilst Labor members are generally supportive of the Committee's recommendations in relation to indigenous Australians, we make the following additional points.

1.21 In relation to Recommendations 24 and 26, Labor members see a need for a multi-faceted strategy to improve the financial literacy of indigenous Australians, co-ordinated by the Government, and involving indigenous organisations, state and territory governments, and financial institutions. Whilst we support Recommendation 24, which calls for financial literacy to be included in core school curricula, we consider this to be only one of a number of strategies that are required. We also believe that the involvement of indigenous organisations, particularly those with demonstrated success in the area of financial literacy education, to be critical.

1.22 Further, we consider that Recommendation 26 fails to go far enough. It is insufficient to call on the ABA to simply 'examine' the successful practices utilised in Canada in relation to indigenous financial literacy. In our view the ABA should develop, in partnership with relevant indigenous organisations, a comprehensive strategy for improving the financial literacy of indigenous users of banking services, drawing on the Canadian experience. Labor members are encouraged by some of the initiatives taken by some banks, and also by the ABA's indicated willingness to work with Reconciliation Australia on this issue. However, it is our view that in the event these voluntary initiatives prove to be insufficient, these issues would properly be considered in the context of compulsory community service obligations.

### ***Recommendation 25***

1.23 Labor members support the Committee's call for government assistance in the form of an employment and professional development scheme to encourage employment of indigenous people in financial services. However, we consider that more specific government or non-government support for organisations which (successfully) provide financial services to remote and regional indigenous communities ought be considered. Organisations such as the Traditional Credit Union provide much needed, culturally sensitive services, often under significant cost pressures resulting from the nature of the services provided and the make-up and geographic location of their customer base. We consider that the Government should investigate means of providing support to such organisations. In addition, we would

encourage the ABA to consider methods of providing financial or in-kind assistance to such organisations.

***Recommendation 29***

1.24 Labor members support extending the jurisdiction of the Banking and Financial Services Ombudsman (BFSO) to be able to consider and advise on complaints regarding consumer difficulties in accessing banking services. Labor members believe that the jurisdiction of the BFSO should be widened further to encompass consumer complaints about the cost of banking services.

***Recommendation 30***

1.25 Labor supports the introduction of Community Service Obligations on ADIs – the ALP has signalled its preparedness to re-regulate the banks if they do not agree to meet appropriate voluntary community service obligations.

SENATOR PENNY WONG  
**DEPUTY CHAIR**

MR ANTHONY BYRNE MP

SENATOR STEPHEN CONROY

MR ALAN GRIFFIN MP



# APPENDIX 1

## SUBMISSIONS AND TABLED DOCUMENTS

<b>Submission number</b>	<b>Submitter</b>
99	Argent, Dr Neil
130	Association of Financial Advisers
121	Australia and New Zealand Banking Group Limited
106	Australia Post
122	Australian Association of Permanent Building Societies
117	Australian Bankers' Association
117A	Australian Bankers' Association (Supplementary)
80	Australian Centre for Co-operative Research and Development
66	Bank of Western Australia Ltd
82	Barraba Shire Council
53	Bendigo Bank Group
68	Blayney Shire Council
92	Boonah Shire Council
46	Borton, Mr Robin
67	Burdekin Shire Council
85	Cabonne Council
47	Cape York Community Financial Project Ltd
94	Carnarvon Chamber of Commerce
28	Catholic Women's League (Tasmania) Inc.
70	Catholic Women's League Australia Inc.
79	Citizens Electoral Council of Australia
7	Colonel Mel Bartlett
124	Commonwealth Bank of Australia
132	Community Bank Cummins
113	Community Teleservices Australia Inc (CTSA)
44	CONFIDENTIAL
60	CONFIDENTIAL
108	CONFIDENTIAL
88	Cooktown Community Bank Committee
97	Coonabarabran Shire Council
33	Corowa Shire Council
76	Council of the City of Ballarat
40	Council of the Shire of Cardwell
73	Country Women's Association of Australia

<b>Submission number</b>	<b>Submitter</b>
86	Country Women's Association of NSW
83	Country Women's Association of Victoria Inc.
59	CPS Credit Union (SA) Ltd
109	Credit Union Services Corporation (Australia) Limited
109A	Credit Union Services Corporation (Australia) Limited (Supplementary)
57	Crookwell Shire Council
105	Department of Agriculture, Fisheries and Forestry - Australia
128	Department of Community Development, Sport and Cultural Affairs on behalf of the Northern Territory Government
101	Department of Family and Community Services
123	Department of Immigration and Multicultural and Indigenous Affairs
127	Department of Transport and Regional Services
4	District Council of Grant
6	District Council of Karoonda East Murray
96	District Council of Lower Eyre Peninsula
30	District Council of Robe
45	Douglas Shire Council
75	East Gippsland Shire Council
81	Edenhope and District Community Bank Steering Committee
131	Elders Rural Bank
69	Finance Sector Union of Australia
11	Glover, Mr Peter
74	Gosford City Council
41	Goulburn City Council
12	Great Lakes Council
8	Gulin Gulin & Weemol Community Council Aboriginal Corporation
56	Gunning Shire Council
50	Guyra Shire Council
17	Herberton Shire Council
87	Hindmarsh Shire Council
18	Holroyd City Council
103	Hutcheon, Mrs Wendy
63	Ipswich City Council
20	Katherine Town Council
95	Lachlan Shire Council
38	Latrobe City Council
31	Laverton Shire Council
116	Lismore City Council
43	Local Government Association of Tasmania

<b>Submission number</b>	<b>Submitter</b>
25	Lockhart Shire Council
54	Macedon Ranges Shire Council
22	Maitland City Council
91	Manilla Shire Council
102	Marshall, Mr Glen
65	Mataranka Community Government Council
1	McLean, Mr Neil
72	Millmerran Shire Council
107	Moore, Mr Tim
114	Municipal Association of Victoria
29	Murgon Shire Council
10	Nanango Shire Council
36	Narrandera Shire Council
118	National Australia Bank
119	National Farmers' Federation
5	Naiyu Nambiyu Community Government Council
5A	Naiyu Nambiyu Community Government Council (Supplementary)
34	Northern Areas Council
21	Northern Midlands Council
111	Noye, Mr Larry
19	Paroo Shire Council
2	Paterson, Mr John
3	Pittsworth Shire Council
77	Post Office Agents Association Limited
78	Professor Jon Altman
71	Provic Group Inc.
62	Queensland Country Women's Association- Norwin Branch
120	Reconciliation Australia
120A	Reconciliation Australia (Supplementary)
89	Redland Shire Council
133	Reserve Bank of Australia
16	Rosalie Shire Council
16A	Rosalie Shire Council (Supplementary)
115	Severn Shire Council
48	Sharpe, Ms Louise
24	Shire of Chapman Valley
125	Shire of Dandaragan
35	Shire of Greenough
52	Shire of Kellerberrin

<b>Submission number</b>	<b>Submitter</b>
42	Shire of Nannup
49	Shire of Victoria Plains
14	Shire of Woodanilling
61	Shire of Yarra Ranges
129	South Australian Government
112	St. George Bank Limited
9	Surf Coast Shire Council
13	Swan Hill Rural City Council
93	Tamworth City Council
126	Tasmanian Government
15	The Barossa Council
100	The Country Women's Association of Western Australia (Inc)
90	The Manangatang Improvement Group Inc
51	The Shire of Wiluna
26	The South Australian Country Women's Association Inc
98	Thuringowa City Council
58	Traditional Credit Union Limited
58A	Traditional Credit Union Limited (Supplementary)
58B	Traditional Credit Union Limited (Supplementary)
84	Uniting Church Synod of South Australia
37	Upper Murray Regional Library
104	Victorian Farmers Federation
39	Wagga Mutual Credit Union
64	Weddin Shire Council
55	West Tamar Council
110	Westpac Banking Corporation
27	Winton Shire Council
32	Woorinen and Beverford District Action Group
23	Yallaro Shire Council

## **TABLED DOCUMENTS**

<b>Received</b>	<b>Document</b>
14/11/2002	<i>Competition and consumer issues for Indigenous Australians (A report to the Australian Competition &amp; Consumer Commission by the Centre for Aboriginal Economic Policy Research, the Australian National University, Canberra), September 2002</i>
14/11/2002	<i>Talkin' Money Business – Proceedings of the Workshop on 'Improving Banking and Financial Services for Indigenous</i>



<b>Received</b>	<b>Document</b>
	<i>Australians</i> , Sydney, May 2002 – Draft Report, Reconciliation Australia
18/02/2003	<i>Talkin' Money Business – Proceedings of the Workshop on 'Improving Banking and Financial Services for Indigenous Australians'</i> , Sydney, May 2002 – Final Report, Reconciliation Australia
25/02/2003	<i>'Our Social Accountability Policies and Practices: We believe in...'</i> provided by Westpac Banking Corporation
25/02/2003	<i>'Going the extra mile'</i> , Regional Banking Report 2003, provided by Westpac Banking Corporation
25/02/2003	<i>'A fresh perspective...Our First Social Impact Report'</i> , provided by Westpac Banking Corporation
26/02/2003	<i>'Use of the Internet and Internet Banking in Small Towns'</i> , provided by Tim Moore
03/03/2003	Correspondence, dated 28 February 2003, from the Post Office Agents Association Limited (POAAL), a list of LPOs which have received EPOS and fill facilities though Rural Transaction Centre programme
03/03/2003	Commonwealth Bank Media Release of 3 March 2003, <i>Commisure offers emergency life insurance premium relief for farmers and graziers</i>
04/03/2003	Summary of the Creditcare Project with contact details for all operating Rural Transaction Centres (RTCs), from the Department of Transport and Regional Services
14/03/2003	Responses (dated 12 March 2003) from the Department of Transport and Regional Services to questions taken on notice at the public hearing on 12 November 2002 and further information on the rollout of the Rural Transaction Centres Program
19/03/2003	Response from the Australian Securities & Investments Commission to a question taken on notice during the public hearing on 26 February 2003 in relation to the real time disclosure of fees and charges
25/03/2003	Announcement by the Rocky River Community Bank Project Steering Committee that it will not be proceeding with a Community Bank

<b>Received</b>	<b>Document</b>
22/04/2003	Email correspondence from Mr Michael McCloskey, Corporate Secretary, Australia Post, regarding a Committee question about the incidence of traditional banking facilities and/or RTCs in towns with giroPost.
08/05/2003	Correspondence dated 6 May 2003, from the Australian Competition & Consumer Commission in relation to questions taken on notice at the public hearing of 27 February 2003
23/05/2003	Value Analysis, Shareholder v Mutual Structure, provided by Heritage Building Society
27/05/2003	Email correspondence, dated 12 May 2003, from the Australian Bankers' Association to Senator P Wong, in relation to their analysis of communities without banking services
27/05/2003	Email correspondence, dated 30 April 2003, from Ms Siobhan McDonnell, Centre for Aboriginal Economic Policy Research, to Senator P Wong, in relation to a Reconciliation Australia workshop
21/07/2003	Email correspondence, dated 17 July 2003, from the Nauiyu Nambiyu Community Council, in relation to the public hearing at Daly River on 21 July 2003 and banking issues
22/07/2003	' <i>Who cares ... our 2003 social impact report</i> ', provided to the committee by Westpac Banking Corporation
22/07/2003	Tangentyere Council Annual Report 2001-2002 and copies of brochures used for electronic banking education
11/09/2003	Correspondence, dated 11 September 2003, from Nyirranggulung Mardrulk Ngadberre Regional Council, in relation to the RTC at Bulman
22/09/2003	Correspondence, dated 19 September 2003, from the Legal Practice Board, regarding the Board's policy on credit union and authorisation to conduct Solicitors' Trust Accounts
26/11/2003	Australian Centre for Co-operative Research Development (ACCORD), report titled <i>Community Development Finance Institutions: Evidence for Overseas and Australia</i> , September 2003
01/12/2003	Email correspondence, dated 1 December 2003, from Credit Union Services Corporation (Australia) Limited, in relation to remote banking Palumpa

## **APPENDIX 2**

### **PUBLIC HEARINGS AND WITNESSES**

#### **TUESDAY, 12 NOVEMBER 2002 – CANBERRA**

##### **DEPARTMENT OF AGRICULTURE, FISHERIES AND FORESTRY**

Mr Brian Jones, General Manager, Science and Economic Policy, Rural Policy and Innovation

Mr Anthony Harman, Acting Manager, Economic Policy and Operating Environment, Rural Policy and Innovation

Ms Nandhini Nagaratnam, Senior Policy Adviser, Economic Policy and Operating Environment, Rural Policy and Innovation

##### **DEPARTMENT OF IMMIGRATION AND MULTICULTURAL AND INDIGENOUS AFFAIRS – OFFICE OF ABORIGINAL AND TORRES STRAIT ISLANDER AFFAIRS**

Mr Stephen Oxley, Assistant Secretary, Social Programs and Reconciliation Branch

Mr Bryan Palmer, Senior Adviser, Service Delivery and performance Section

##### **DEPARTMENT OF TRANSPORT AND REGIONAL SERVICES**

Ms Kelly Pearce, Acting Assistant Secretary, Regional Access Branch

Mr Paul Davies, Director, Rural Transaction Centres Program, Policy and External Relations Section

Ms Helen Blain, Assistant Director, Rural Transaction Centres Program, Policy and External Relations Section

##### **DEPARTMENT OF FAMILY AND COMMUNITY SERVICES**

Ms Glenys Beauchamp, Executive Director, Community Development and Support

Mr Barry Smith, Assistant Secretary, Indigenous Policy and North Australia Office

##### **CENTRELINK**

Mr Robin Salvage, National Manager, Rural and Housing Segment

Ms Jenny Thomson, Business Manager, Service Development, Indigenous Community Segment

#### **THURSDAY, 14 NOVEMBER 2002 – CANBERRA**

##### **NATIONAL FARMERS FEDERATION**

Mr Charles Burke, Chairman, Economics Committee

Mr Michael Potter, Policy Manager, Economics Committee

**AUSTRALIAN BANKERS ASSOCIATION**

Mr David Bell, Chief Executive Officer

Mr Stephen Carroll, Director

Ms Ardele Blignault, Director

Ms Gina Cass-Gottlieb, Partner, Gilbert and Tobin, Adviser to Australian Bankers Association

**AUSTRALIAN NATIONAL UNIVERSITY**

Professor Jon Altman, Director, Centre for Aboriginal Economic Policy Research

Dr John Taylor, Senior Fellow, Centre for Aboriginal Economic Policy Research

**RECONCILIATION AUSTRALIA**

Ms Siobhan McDonnell, Project Workers, Banking and Financial Services

Mr Brian Aarons, General Manager

Mr Joseph Elu, Director

**TUESDAY, 25 FEBRUARY 2003 – SYDNEY**

**WESTPAC BANKING CORPORATION**

Mr Graham Jennings, National Manager, Regional Banking

Mr Graham Paterson, Head of Regional Community Partnerships

**COMMONWEALTH BANK OF AUSTRALIA**

Mr Hugh Harley, Group Executive, Retail Banking Services

Mr Mukesh Parekh, Executive General Manager, Infrastructure Services, Retail Banking Services

Mr Stephen Morgan, Chief Manager, Agribusiness

**AUSTRALIAN CENTRE FOR CO-OPERATIVE RESEARCH & DEVELOPMENT**

Mr Gary Cronan, General Manager

Ms Kathryn Parker, Research Fellow

**LOCAL GOVERNMENT ASSOCIATION OF NEW SOUTH WALES**

Mr Shaun McBride, Policy Officer, Finance & Economic Development

Mr David Clark, Legal Officer

**CREDIT UNION SERVICES CORPORATION (AUSTRALIA) LIMITED**

Mr Adrian Lovney, General Manager, Industry Association

Ms Louise Petschler, Head of Public Affairs

**AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY**

Mr Brandon Khoo, Executive General Manager, Specialised Institutions Division  
Dr Darryl Roberts, General Manager, Rehabilitation and Enforcement  
Mr Stephen Glenfield, General Manager, South West Region  
Mr Earl Burgess, Senior Manager, Rehabilitation and Enforcement

**COUNTRY WOMEN'S ASSOCIATION OF NEW SOUTH WALES**

Mrs Margaret Brown, Committee Chairman

**SMALL BUSINESS ASSOCIATION OF AUSTRALIA**

Mr John Fowler, President

**WEDNESDAY, 26 FEBRUARY 2003 – MELBOURNE**

**AUSTRALIAN SECURITIES AND INVESTMENTS COMMISSION**

Mr Ian Johnston, Executive Director, Financial Services Regulation  
Mr Mark Adams, Director, Regulatory Policy  
Ms Pauline Vamos, Director, Licensing and Business Operations

**AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED**

Ms Jane Nash, Government and Regulatory Affairs  
Mr Mike Guerin, Rural Banking

**PROFESSOR IAN HARPER**, Sidney Myer Professor of Commerce and Business Administration, Assistant Director and Dean of Faculty, Melbourne Business School

**MR TIM MOORE**, Department of Economics, Monash University

**FINANCE SECTOR UNION OF AUSTRALIA**

Mr Tony Beck, National Secretary

**MUNICIPAL ASSOCIATION OF VICTORIA**

Mr Troy Edwards, Senior Policy Adviser  
Ms Kerry Yu, Policy Adviser  
Mr Daryl Treloar, Economic Development & Tourism Manager, Surf Coast Shire Council  
Mr Bill Barber, Investment Manager, Latrobe City Council  
Mr Chris Francis, Director, Organisational Strategy, Ballarat City Council

**COUNCIL OF SMALL BUSINESS ORGANISATIONS OF AUSTRALIA**

Mr Richard Brooks, Timber Merchants Association

**AUSTRALIAN RETAILERS ASSOCIATION**

Mr Stan Moore, Interim Chief Executive Officer

**THURSDAY, 27 FEBRUARY 2003 – MELBOURNE**

**NATIONAL AUSTRALIA BANK**

Mr Ian MacDonald, Executive General Manager, Financial Services Australia

Mr Jeremy Dean, General Manager, Channel and Process Optimisation

Mr Mike Carroll, General Manager, Agribusiness Financial Services

Mr Gordon Lefevre, General Manager, Personal Financial Services

Mr Tim O’Leary, Head of Corporate Affairs, Financial Services Australia

**AUSTRALIAN COMPETITION AND CONSUMER COMMISSION**

Mr Brian Cassidy, Chief Executive Officer

Mr Paul Palisi, Acting General Manager of Adjudication

Mr Mark Pearson, General Manager, Merger and Assets Sales

**BENDIGO BANK**

Mr Greg Gillett, Chief General Manager, Retail Banking, Bendigo Bank Group

**POST OFFICE AGENTS ASSOCIATION LIMITED**

Ms Marie McGrath-Kerr, National Chairman

Mr Dennis Jenner, South Australia/Northern Territory Branch Chairman

**WEDNESDAY, 12 MARCH 2003 – ADELAIDE**

**ELDERS RURAL BANK**

Mr Brian Goodfellow, General Manager Operations

**CPS CREDIT UNION (SOUTH AUSTRALIA) LIMITED**

Mr Tim White, General Manager

**AUSTRALIA POST**

Mr Mike McCloskey, Corporate Secretary

Mr Terry Stephens, Group Manager, Financial Services

**THE SOUTH AUSTRALIAN COUNTRY WOMEN’S ASSOCIATION**

Mrs Mary Scattock

Mrs Beth Waddington

Mrs Val Yelds

**UNITING CHURCH SYNOD OF SOUTH AUSTRALIA**

Ms Julia Pitman, Justice and Solidarity Research Officer, Adelaide Central Mission

**THURSDAY, 13 MARCH 2003 – TANUNDA AND JAMESTOWN**

**THE BAROSSA COUNCIL AND ANGASTON COMMUNITY BANK STEERING COMMITTEE**

Mr Rob Adam, Director Corporate and Community Services, Barossa Council  
Councillor David Lykke, Member, Barossa Council and Member, Angaston Community Bank Steering Committee

**NORTHERN AREAS COUNCIL**

Mr Keith Hope, Community Projects and Development Manager, Northern Areas Council

Mr Lyndon Longmire, Councillor, Northern Areas Council

Councillor Jeff Burgess, Chairman, Northern Areas Council

Mr Malcolm Catford, Councillor, Northern Areas Council

Mr Samuel Smith, President, Gladstone Community Development and Tourism Association; and Member, Rocky River Community Bank Steering Committee

Mr Peter Emery, Executive Officer, Central Local Government Region of South Australia Inc

**THURSDAY, 22 MAY 2003 - YARRAMAN**

**ALLERY, MR KEVIN** (Private capacity)

**NANANGO SHIRE COUNCIL**

Brittain, Mr Richard Leslie Charles, Chief Executive Officer

Lee, Councillor John Archibald, Deputy Mayor

McCallum, Mayor Reginald Beach, Mayor

**NANANGO PROGRESSIVE COMMUNITY LTD**

Head, Mr Robert, Director

Zerbst, Mrs Wendy Jane, Secretary

**ELECTRICITY CREDIT UNION**

Maudsley, Mr Geoffrey William, Chairman

**ROSALIE SHIRE COUNCIL**

Strohfeld, Councillor Noel Leslie, Mayor

Weber, Mr Clinton Noel, Chief Executive Officer

**FRIDAY, 23 MAY 2003 - TOOWOOMBA AND BOONAH**

**BOONAH SHIRE COUNCIL**

Flint, Mr Ian Charles, Chief Executive Officer

Smith, Councillor Robert Bruce, Deputy Mayor

**HERITAGE BUILDING SOCIETY LTD**

Read-Smith, Mr Fraser Douglas, Chief Executive Officer

**MONDAY, 21 JULY 2003 - DALY RIVER**

**PERRYS ON THE DALY PTY LTD**

Perry, Mrs Carol Anne, Secretary and Director

**NAUIYU NAMBIYU COMMUNITY GOVERNMENT COUNCIL**

Shoobridge, Mr David, Chief Executive Officer

**MONDAY, 21 JULY 2003 - DARWIN**

**DEPARTMENT OF COMMUNITY DEVELOPMENT, SPORT AND CULTURAL AFFAIRS**

Gardiner, Mr John, Senior Policy Officer, Partnerships and Regional Development Branch

**TRADITIONAL CREDIT UNION LTD**

Gaykamanu, Mr Djerringal (Henry), Director, Founding Member

McMillan, Ms Beverley Anne, Assistant General Manager

**DEPARTMENT OF BUSINESS, INDUSTRY AND RESOURCE DEVELOPMENT**

Nolen, Mr Mark John, Indigenous Economic Development Coordinator

**WESTBURY, MR NEIL DONALD** (Private capacity)

**TUESDAY, 22 JULY 2003 - ALICE SPRINGS**

**TANGENTYERE COUNCIL INC**

Acfield, Mr Paul John, Human Resources Manager

Birch, Mrs Leanne, Senior Finance Officer, Reconciliations



Fielding, Ms Rochelle Louise, Senior Finance Officer  
McDonald, Mr Patrick James, Finance Manager  
Nightingale, Mrs Tracie Leigh, Senior Finance Officer, Bank Agency  
Shacklady, Mr Leigh, Financial Counsellor

**CENTRELINK**

Miller, Mrs Joanne Marie, Business Manager, Service Delivery, Central Cluster, Area North Australia  
Pitts, Mr Gordon Ronald, Area Manager, Area North Australia

**WESTPAC**

Paterson, Mr Graham, Head of Regional Community Partnerships

**WEDNESDAY, 5 NOVEMBER 2003- CANBERRA**

**AUSTRALIAN ASSOCIATION OF PERMANENT BUILDING SOCIETIES**

Anderson, Mr Gordon, Senior Manager, Payments, IMB, and representing AAPBS  
Toms, Mr John Neville, Chief Executive Officer, Australian Settlements Ltd, and representing AAPBS

**AUSTRALIAN BANKERS ASSOCIATION**

Bell, Mr David, Chief Executive Officer  
Gallagher, Ms Lynne, Director, Wealth Management, Australian Bankers Association

**COUNTRY WOMEN'S ASSOCIATION OF NEW SOUTH WALES**

Brown, Mrs Margaret Mary, Chairman, State Study and Investigation Committee

**RESERVE BANK OF AUSTRALIA**

Bullock, Ms Michele, Acting Head, Payments Policy Department

**RECONCILIATION AUSTRALIA**

Chandler, Ms Jenni, Chief Executive Officer

**UNIVERSITY OF NEW SOUTH WALES**

Connolly, Mr Chris, Director, Financial Services Consumer Policy Centre

**VIRGIN MONEY AUSTRALIA**

Gamble, Mr Rohan David, Managing Director

**CREDIT UNION SERVICES CORPORATION (AUSTRALIA) LTD**

Lawler, Mr Luke, Senior Adviser, Policy and Public Affairs

Petschler, Ms Louise, Head of Public Affairs

**RESERVE BANK OF AUSTRALIA**

Veale, Dr John Michael, Acting Assistant Governor (Financial System)

**AUSTRALIAN CONSUMERS ASSOCIATION**

Wolthuizen, Ms Catherine, Senior Policy Officer, Financial Services

## APPENDIX 3

### STATE GOVERNMENT EXEMPTIONS FOR STAMP DUTY ON REFINANCED LOANS

#### COMMONWEALTH GOVERNMENT RESPONSE TO THE RECOMMENDATION OF THE HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS, FINANCE AND PUBLIC ADMINISTRATION (THE HAWKER COMMITTEE) INQUIRY INTO REGIONAL BANKING SERVICES

New South Wales	Effective 1 July 1996, the NSW Government abolished Loan Security Duty on the re-financing of a secured loan (such as a mortgage) up to the amount originally secured. As a result, home owners seeking to change their mortgage from one financial institution to another, either for reasons of convenience or cost, pay no loan security duty in NSW provided the amount borrowed is not increased.
Victoria	Since 1 May 1997, the Victoria Stamps Act 1958 has provided an exemption for stamp duty on mortgages where loans are being refinanced. The existing exemption from mortgage stamp duty will apply in the circumstances of a bank branch closure. There are no conditions which apply to the exemption other than the borrower must be the same party in both transactions and the exemption applies only to the amount originally borrowed. If additional funds are borrowed in the refinancing (or changeover) arrangements, stamp duty would be payable on the additional amount.
Queensland	<p>There are currently several concessions or exemptions which enable bank customers to transfer their loans from one bank to another for minimal or no stamp duty. For example, where the new financier accepts the original mortgage as security, it is possible to transfer the mortgage for nominal stamp duty of \$5.00.</p> <p>An exemption from stamp duty is available for the refinancing of loans secured by a mortgage over a borrower's principal home provided that certain qualifying conditions are met. However, this exemption is limited to the balance owing under the previous mortgage or \$100,000, whichever is the lesser.</p> <p>Relief from stamp duty is also available on refinancing</p>

	rural loans where certain qualifying conditions are met.
Western Australia	<p>The Government's position has been not to provide general exemptions. The reasons for this position include the administrative and revenue impacts (particularly if the exemptions were not restricted to country bank branch closures) and the element of choice for the customer (given the availability of electronic alternatives to branch banking).</p> <p>There is a refund scheme which enables some loans relating to farms to be exempt from stamp duty.</p> <p>In late 1999 the Government introduced an administrative scheme for rebating mortgage duty (as well as Financial Institutions Duty and Debits Tax) if residents transfer their banking to a new "community bank" (like those in Victoria). The establishment of a "community bank" would be seen as strong evidence that other banking alternatives in the town were inadequate.</p>
South Australia	<p>On 17 September 1997, the Premier announced that the Government would provide a mortgage stamp duty exemption for those persons in rural South Australia who are forced by local financial institution branch closures to move their accounts and loans to another financial institution still operating in the town. This initiative was expanded beyond that initially announced to include transfers to a financial institution in the nearest town, where the closing financial institution was the last in existence in the town affected.</p>
Tasmania	<p>In the 1997-98 Budget, the Tasmanian Government provided for the abolition of stamp duty on the refinancing of residential, commercial and rural loans.</p>
Australian Capital Territory	<p>The ACT Government does not currently impose stamp duty on mortgages or the discharge of mortgages where customers are transferring loans to another bank.</p>
Northern Territory	<p>The Northern Territory does not levy stamp duty on mortgages.</p>

## APPENDIX 4

### POINTS OF PRESENCE BY STATE AND SERVICE CHANNEL (JUNE 2001)<sup>1</sup>

The following meet the definition of a branch

<b>Service Channel</b>	ACT	NSW	NT	QLD	SA	TAS	VIC	WA	Aust. Wide	Grand Total
Agencies		101	2	89	41	2	92	55		382
Agency		8	2	7	4					21
Branch	71	1,603	49	962	288	111	1,071	346		4,501
Branch - BSA			4	1	117					122
Branch - Non Cash		2								2
Branch - Unowned				1				1		2
Commercial Branch	1	7		1	1		3	1		14
Community Bank Branches		7			3		27	10		47
Franchise					1					1
Head Office		8					2			10
In-Stores	1	64		43	12	7	33	22		182
Member Advisory Centres		4								4
Network Service Delivery, Distribution Channel								89		89
On-Line Agents				20						20
Personal Finance Centre	8	1								9
Private Agents				35						35
Service Centres		12								12
Single Site Operators		14		1						15
Stores	9	212	9	112	36	14	154	78		624
Tasmanian Banking Service Branch						3				3

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<sup>1</sup> APRA, Points of Presence, 30 June 2001.

The following service channels do not meet the definition of a branch

Service Channel	ACT	NSW	NT	QLD	SA	TAS	VIC	WA	Aust. Wide	Grand Total
Advisory Centres	1	5					5	1		12
Agencies with EFTPOB	1	70	10	64	9	5	59	13		231
Agency		18		31	18	14	10	15		106
Agency - Lending				18						18
Agency - Transactions				32						32
Agents								93		93
Agri-Business Banking Centres		10		7	3		10	5		35
Area Committees		3		5						8
ATM	132	2,926	108	1,876	627	106	1,623	831		8,229
ATM - Branded	38	585	5	50	18		40	1		737
ATM - BSA			5	1	155					161
ATM - Unbranded	17	683	5	248	71	13	294	30		1,361
Automatic Electronic Branch	2	25		6			4			37
Bank Agency			2	2	1	2	1	1		9
Banking Suite		1					1			2
BPAY										
Bragency		26		1			4			31
Branch		28	2	25	4	2	11	5		77
Branch - Cashless Agency					1					1
Branch - Kiosk		1								1
Branch - Non Cash					3					3
Branch Less Than 7.5 hrs per week		1								1
Business Banking		5		7	1		24	3		40
Business Banking Centres	3	88	3	53	28	4	74	29		282
Business Development Managers				5			5			10
Business Development Officer		1								1
Business Development Offices							1			1
Business Managers								5		5
Call Centre - Rediphone		1								1
Call centre, mail and fax										
CAT/CAP		2,771		785	292	83	1,082	447		5,460
Commercial Lending Centre		3								3
Commonwealth Business Centres					1			1		2
Customer Information Centres		1		1	1		1	1		5
EFTPOB				1						1
EFTPOS	734	21,237	5,815	17,186	3,229	12,838	974	4,896	1,982	68,891
Elders Rural Bank		56	2	61	32	1	37	37		226
Electronic Agencies - BSA		1	3	2	132		9			147
Ezy Banking	14	203	11	126	48	29	162	66		659
Financial Planner		3								3
Financial Service Centres	3	28		7			2			40
Financial Solutions Shop							1			1



<b>Service Channel</b>	<b>ACT</b>	<b>NSW</b>	<b>NT</b>	<b>QLD</b>	<b>SA</b>	<b>TAS</b>	<b>VIC</b>	<b>WA</b>	<b>Aust. Wide</b>	<b>Grand Total</b>
Private Banking Suites		5		2	1		4	1		13
Proprietary ATMs	60	1,050	18	546	152	73	779	252		2,930
Public Agents		3		19			87			109
RediPOS		92			49					141
Referral Agents	2	25		201	13	1	243	3		488
Regional Manager							1			1
Representatives	1	2		4	2		3			12
Sales Centre		1			1		5			7
Sales Only Branch		6		2		1	9	2		20
Specialist Centres		5		4	2		9	1		21
Service Centres				1	1		2	1		5
Small Business Centres		4		1		2	2			9
State Schools, TAFES & Unis in NSW ACT & NT										
Supermarket Outlet				1			1	1		3
Telephone Banking VISA		5					1			6



## APPENDIX 5

# BANKING AND FINANCIAL SERVICES IN REGIONAL AND REMOTE NORTHERN TERRITORY

Area	Major Communities	Agency Operating	Services Provided	Location	Problems	Plans/Recommendations for future
Katherine/Gulf	Barunga ( Wugularr, Manyallaluk)	Traditional Credit Union (TCU)	CU services	Barunga Store	Comments from staff that fees are too high	TCU to do more marketing and membership drives, Community education programs on financial literacy, use of eftpos card. book-ups, Money story, employment & training of Aboriginal staff Cert 2 & 3 in Financial Services.
Katherine/Gulf	Borroloola	EFTPOS.	EFTPOS	Store	Unable to check account balances, and cheaply send or transfer funds. Communications totally reliant on Optic Fibre; if damaged no banking services available.	Future plans from the community are not known. I would recommend a "Web Point Kiosk" to allow people to cheaply access transaction and balances in their accounts. Also, it will allow them to transfer funds to any account cheaply and instantly.
Katherine/Gulf	Mabunji outstations	EFTPOS.	EFTPOS	Store	Unable to check account balances, and cheaply send or transfer funds. Communications totally reliant on Optic Fibre; if damaged no banking services available.	Not expressed
Katherine/Gulf	Robinson River	EFTPOS.	EFTPOS	Store	Unable to check account balances, and cheaply send or transfer funds. Communications totally reliant on Optic Fibre; if damaged no banking services available.	Not expressed
Katherine/Gulf	Mungoorbada outstations	EFTPOS.	EFTPOS	Store	Unable to check account balances, and cheaply send or transfer funds. Communications totally reliant on Optic Fibre; if damaged no banking services available.	Not expressed
Katherine/Gulf	King Ash Bay	EFTPOS.	EFTPOS	Store	Unable to check account balances, and cheaply send or transfer funds. Communications totally reliant on Optic Fibre; if damaged no banking services available.	Not expressed
Katherine/Gulf	McArthur River Mines camp	EFTPOS.	EFTPOS	Store	Unable to check account balances, and cheaply send or transfer funds. Communications totally reliant on Optic Fibre; if damaged no banking services available.	Not expressed

Area	Major Communities	Agency Operating	Services Provided	Location	Problems	Plans/Recommendations for future
Katherine/Gulf	Kalkaringi & Daguragu	EFTPOS.	Only EFTPOS goods payment and cash out.	Kalkaringi store	Unable to check account balances, and cheaply send or transfer funds. Communications totally reliant on Optic Fibre; if damaged no banking services available.	Future plans from the community are not known. I would recommend a "Web Point Kiosk" to allow people to cheaply access transaction and balances in their accounts. Also, it will allow them to transfer funds to any account cheaply and instantly.
Katherine/Gulf	Bulman (Gulin Gulin & Weemol)	EFTPOS.	Only EFTPOS goods payment. Only limited amount of cash out.	Gulin Gulin Store	Unable to check account balances, and cheaply send or transfer funds. Communications totally reliant on Optic Fibre; if damaged no banking services available.	Communities currently negotiating for a Rural Transaction Centre (RTC) to be set up in the community. 3 meetings have been held so far. Negotiations have also been held with TCU to work in with the RTC.
Katherine/Gulf	Lajamanu	TCU, Westpac agent	CU Services, Bank agencies	Council	TCU is only newly established, too soon to establish problems. Westpac Unable to check customer account balances or transfer funds (without imposing extraordinary charges).	Community advises they are looking at installing an ATM.
Katherine/Gulf	Mataranka	EFTPOS, ATM	Only EFTPOS goods payment and cash out from ATMs.	Supermarkets, Service Stations, Pub	Unable to check account balances, and cheaply send or transfer funds. Communications totally reliant on Optic Fibre; if damaged no banking services available.	Community has a RTC operating at the Community Government Council Office which currently provides a reference library service only. Council is currently negotiating for access to internet banking facility.
Katherine/Gulf	Timber Crk	EFTPOS.	Only EFTPOS goods payment and cash out.		Unable to check account balances and send or transfer funds.	Future plans from the community are not known. I would recommend a "Web Point Kiosk" to allow people to cheaply access transaction and balances in their accounts. Also, it will allow them to transfer funds to any account cheaply and instantly.
Katherine/Gulf	Wugularr	EFTPOS	Only EFTPOS goods payment and cash out.	Wugularr store	Unable to check account balances, and cheaply send or transfer funds. Communications totally reliant on Optic Fibre; if damaged no banking services available.	Future plans from the community are not known. I would recommend a "Web Point Kiosk" to allow people to cheaply access transaction and balances in their accounts. Also, it will allow them to transfer funds to any account cheaply and instantly.
Katherine/Gulf	Ngukurr	EFTPOS	Only EFTPOS goods payment and cash out.		Unable to check account balances, and cheaply send or transfer funds.	Future plans from the community are not known. I would recommend a "Web Point Kiosk" to allow people to cheaply access transaction and balances in their accounts. Also, it will allow them to transfer funds to any account cheaply and instantly.
Katherine/Gulf	Manyallaluk	TCU, EFTPOS	Only EFTPOS goods payment and cash out.	Manyallaluk Store	Unable to check account balances, and cheaply send or transfer funds. Communications totally reliant on Optic Fibre; if damaged no banking services available.	Future plans from the community are not known. I would recommend a "Web Point Kiosk" to allow people to cheaply access transaction and balances in their accounts. Also, it will allow them to transfer funds to any account cheaply and instantly.
Barkly	Alpurrulum	Nil	EFTPOS and	Out of Council	No banking facilities	Interest in RTC

Area	Major Communities	Agency Operating	Services Provided	Location	Problems	Plans/Recommendations for future
Barkly	Elliott	CBA & ANZ agents	payroll deposits Agency EFTPOS and	Office Shops Service Station & Hotel	No banking facilities. Restricted premises and capacity. No banking facilities. Restricted premises and capacity	Interest in RTC
Barkly	All Curung	Nil	Nil		No EFTPOS within community but wages paid electronically	No intent expressed
Barkly	Tennant Creek	ANZ and WPAC Branches	Full Services EFTPOS freely available	Several	No banking facilities	No interest in RTCs
East Arnhem	Guyangara	Use Nhulunbuy WPAC and NT Credit Union	Full Services in town	Only in Town	Town (Nhulunbuy) is 20 km drive Complaints about level of charges	Not expressed
East Arnhem	Yirrkala	Use Nhulunbuy WPAC and NT Credit Union	Full Services in town	Only in Town	Town (Nhulunbuy) is 20 km drive Complaints about level of charges	Not expressed
East Arnhem	Umbakumba	CBA Agent EFTPOS		Store Several	Proposed TCU proved non-viable	Not expressed
East Arnhem	ANGURUGU	ANZ Agent ATM EFTPOS		Alyangula local store Community Office	15 km travel required each way No banking facilities No banking facilities	Not expressed
East Arnhem	Milingimbi	TCU Branch	Payroll, automatic deductions	Own Office	No banking facilities	Not expressed
East Arnhem	Ramingining	TCU Branch	Payroll, automatic deductions	Own Office	No banking facilities	Not expressed
East Arnhem	Gapuwiyak	TCU Branch	Payroll, automatic deductions	Own Office	No banking facilities	Not expressed

Area	Major Communities	Agency Operating	Services Provided	Location	Problems	Plans/Recommendations for future
East Arnhem	Elcho Island	TCU Branch	Payroll, automatic deductions	Own Office	No banking facilities	Not expressed
East Arnhem	Numbulwar	TCU Branch	Payroll, automatic deductions	Own Office	No banking facilities	Not expressed
East Arnhem	Milyakburra	Nil	Shop will cash cheques	Shop	Wages have to be brought in by charter plane from Groote	Not expressed
Centre	Aherrenghe		EFTPOS through Store			Not expressed
Centre	Amoonguna				No banking facilities	Not expressed
Centre	Anmatjere Community Government Council. Ti Tree, Laramba, Engawala, PmaraJutunta, Aputula		EFTPOS through stores and roadhouses		Not expressed	Not expressed
Centre	Areyonga (Uju)		EFTPOS through Store		No banking facilities	Not expressed
Centre	Aritaripitla Com. Gov. Council ( Harts Range)		EFTPOS through Store		No banking facilities	Not expressed
Centre	Ikunŋi (Haasts Bluff)		EFTPOS through Store		No banking facilities	Not expressed
Centre	Imanpa		EFTPOS - Store & Roadhouse			Not expressed
Centre	Ingkerreke				No banking facilities	Not expressed
Centre	Kaltukatjara (Docker River)		EFTPOS through Store			Not expressed
Centre	Liyentye Apurte Com. Gov. Council(Santa Teresa)	CBA Agent	ATM & EFTPOS through Store		Bank considering removal of agency	Not expressed
Centre	Mutitjulu	ANZ Agent at Yulara	EFTPOS		Not expressed	Not expressed
Centre	Ntaria (Hermannsburg)		EFTPOS through		Not expressed	Not expressed

Area	Major Communities	Agency Operating	Services Provided	Location	Problems	Plans/Recommendations for future
Centre	Nyirripi		Store EFTPOS through Store		Not expressed	Not expressed
Centre	Papunya		EFTPOS through Store		Not expressed	Not expressed
Centre	Small camps and outstations serviced by Tangentyere	CBA Agent	EFTPOS through Commercial Enterprises		Not expressed	Not expressed
Centre	Tapatiŋjaka Com. Gov. Council (Tijikala / Maryvale)				No banking facilities	Not expressed
Centre	Tjuwanpa O/S Resource Centre	CBA Agent	EFTPOS at store		Not expressed	Not expressed
Centre	Urapunija		EFTPOS through Store		Not expressed	
Centre	Wallace Rockhole Com. Gov. Council		EFTPOS through Camping grounds stroe		Not expressed	
Centre	Walungurru (Kintore)		EFTPOS		Not expressed	Feasibility Study being conducted onto wider services through Westpac or RTCs.
Centre	Watiyawanu Com Gov. Council (Mt Liebig)		EFTPOS through Store		Not expressed	Not expressed
Centre	Willowra - via Yuendumu		EFTPOS through Store		Not expressed	Not expressed
Centre	Yuelamu		EFTPOS through Store		Not expressed	Not expressed
Centre	Yuendumu Com. Gov. Council		EFTPOS through Store		Not expressed	Not expressed
Darwin	Warruwi	Traditional Credit Union	EFTPOS	Community Store	Limited withdrawal amounts	Not expressed
		Bank Branch			Not expressed	Not expressed



Area	Major Communities	Agency Operating	Services Provided	Location	Problems	Plans/Recommendations for future
Darwin	Nganmariyanga	EFTPOS, Cheque cashing	EFTPOS	Community Store	Not expressed	Not expressed
Darwin	Port Keats	WPAC Agent, TCU	Bank	Traditional Credit Union	Not expressed	Not expressed
		Cheque cashing	EFTPOS	Community Store	Not expressed	Not expressed
Darwin	Daly River	NAB Agency	EFTPOS	Council	Most banking facilities	Not expressed
		EFTPOS, cheque cashing	EFTPOS	Community Store, Council, Club	Not expressed	Not expressed
			EFTPOS		Not expressed	Not expressed
Darwin	Peppimenarti	EFTPOS, Cheque cashing	EFTPOS	Community Store	Not expressed	Not expressed
Darwin	Litchfield/Humpty Doo	CBA Agency, EFTPOS, ATM	EFTPOS	Agent at PO, EFTPOS several	Not expressed	Not expressed
Darwin	Nguiu	EFTPOS, cheque cashing	EFTPOS	Council, Store	Community Store cashes most cheques	Not expressed
Darwin	Milikapati	Cheque cashing	Cheque cashing	Community Store	No EFTPOS services at community	Not expressed
Darwin	Pirlangimpi	Cheque cashing	Cheque cashing	Community Store	No EFTPOS services at community	Not expressed
Darwin	Warankawu	Cheque cashing	Cheque cashing	Community Store	No EFTPOS services at community	Not expressed





## APPENDIX 6

### TOWNS ASSISTED BY CREDITCARE TO REGAIN FINANCIAL SERVICES

Ashford	NSW
Bermagui	NSW
Bulahdelah	NSW
Delegate	NSW
Denman	NSW
Eugowra	NSW
Ganmain	NSW
Gresford	NSW
Hallidays Point	NSW
Hawk's Nest	NSW
Moulamein	NSW
Mungindi	NSW
Nabiac	NSW
Oaklands	NSW
Old Bar	NSW
Stroud	NSW
Trangie	NSW
Trundle	NSW
Urana	NSW
Walla Walla	NSW
Werris Creek	NSW
Agnes Water	QLD
Aramac	QLD
Blackbutt	QLD
Cardwell	QLD
Crowes Nest	QLD
Croydon	QLD
Dayboro	QLD
Dimbulah	QLD
Dirranbandi	QLD
Eidsvold	QLD
Einasleigh	QLD
Forsayth	QLD
Georgetown	QLD
Greenvale	QLD
Hebel	QLD
Herberton	QLD
Irvinebank	QLD

Isisford	QLD
Kalbar	QLD
Kilkivan	QLD
Magnetic Is.	QLD
Miles	QLD
Mission Bch	QLD
Mt Surprise	QLD
Surat	QLD
Thallon	QLD
Yaraka	QLD
Eildon	VIC
Fish Creek	VIC
Penshurst	VIC
Rosedale	VIC
Shepparton (ATSI)	VIC
Stratford	VIC
Walwa	VIC
Welshpool	VIC
Yackandandah	VIC
Paraburdoo	WA

## APPENDIX 7

### THE GOVERNMENT'S RESPONSE TO THE RECOMMENDATIONS OF THE REGIONAL TELECOMMUNICATIONS INQUIRY

The Government has responded comprehensively to all 39 recommendations of the Regional Telecommunications Inquiry.

<b>Recommendation</b>	<b>Government response</b>	<b>Action</b>
<b>Fixed Telephones and Payphones (Chapter 2, Terms of Reference 1 and 2)</b>		
RECOMMENDATION 2.1  Telstra should continue to work with representatives of people with disabilities to resolve any service concerns, and consider their practical suggestions for service improvements. The Government should consider any national policy issues raised with the Inquiry, relating to access to telecommunications for people with disabilities.	Accept	Telstra will work with representatives of people with disabilities to resolve any services concerns.  The Department of Communications, Information Technology and the Arts (DCITA) will report to Government on the outcomes of work between Telstra and people with disabilities, and will consider the implications of that work for national policy settings.
RECOMMENDATION 2.2  The Government should review arrangements for the costing and funding of the Universal Service Obligation. This should also include assessing whether current arrangements are impeding the development of competition in regional, rural and remote Australia.	Accept	The Government will undertake a review of the Universal Service Obligation as required by section 159A of the <i>Telecommunications (Consumer Protection and Service Standards) Act 1999</i> .
RECOMMENDATION 2.3	Accept	The Government will

<p>Where extreme cases of Customer Service Guarantee (CSG) non-compliance arise (i.e. more than five working days late), they should receive direct priority attention by the service provider, and should be notified to the Australian Communications Authority and/or the Telecommunications Industry Ombudsman as technical breaches of the CSG.</p>		<p>ensure that service providers give direct priority attention to cases of extreme CSG non-compliance and that they are reported in a timely way to the Australian Communications Authority (ACA).</p>
<p><b>RECOMMENDATION 2.4</b></p> <p>Telstra should report publicly on the outcome of its trial with the National Farmers' Federation to reduce connection times in minor rural and remote areas where infrastructure is not readily available, and identify what follow-up commitments it will make. Should the Telstra trial not lead to a significant and ongoing improvement in service outcomes in this area, the Government should review regulatory arrangements, including CSG timeframes and interim service arrangements, to assess whether further changes to timeframes are appropriate.</p>	<p>Accept</p>	<p>Telstra has already made a voluntary commitment to reduce connection times in areas where infrastructure is available in minor rural areas from 15 to 10 working days, and in minor rural and remote areas where there is no cable infrastructure available from 130 working days to 20 working days. This commitment is already enforceable under the CSG.</p>
<p><b>RECOMMENDATION 2.5</b></p> <p>Telstra should report to the Government on the outcome of its project to improve the coordination of new service connections. The impact of any changes should be monitored with a view to determining the need for any further follow-up action.</p>	<p>Accept</p>	<p>Telstra will provide Government with a report on the outcomes of its project to improve coordination for new service connections. Monitoring arrangements will be established to determine the need for any follow-up action.</p>
<p><b>RECOMMENDATION 2.6</b></p> <p>The Government should examine the issue of network extension and trenching costs, to consider whether such costs should be removed from subscribers, and either borne by</p>	<p>Accept</p>	<p>The Government will undertake a review of network extension and trenching costs, including considering how such costs should be recovered.</p>

<p>Telstra as part of its Universal Service Obligation provision, or supported by the Government through subsidies.</p>		
<p><b>RECOMMENDATION 2.7</b></p> <p>Telstra should promptly confirm to the Government that it has an effective strategy for improving as soon as possible the quality of telephone services affected by the use of 6/16 and similar pair gain systems. Telstra should give a formal undertaking to the Government, including providing timeframes, in relation to any actions required to implement such a strategy. Progress in meeting this strategy should be monitored by the ACA and reported on publicly.</p>	<p>Accept</p>	<p>Telstra will provide the Government with a formal undertaking on its strategy, including timeframes, to improve, as soon as possible, phone services affected by the use of 6/16 and similar pair gain systems. Progress in meeting the strategy will be monitored by the ACA and reported publicly.</p>
<p><b>RECOMMENDATION 2.8</b></p> <p>Telstra should provide a formal undertaking to the Government to complete its upgrade of older radio concentrator systems (ARCSs and DRCSs) under its Remote Areas Telecommunications Enhancement (RATE) program, and according to a publicly available timetable.</p>	<p>Accept</p>	<p>Telstra will provide the Government with a formal undertaking on the timing of the completion of the upgrade of its remaining older radio concentrator systems under its RATE program. The timetable will be publicly available.</p>
<p><b>RECOMMENDATION 2.9</b></p> <p>To immediately target the worst performing Exchange Service Areas (ESAs) in regional, rural and remote Australia, the Government should require the ACA to identify these ESAs as soon as possible after the Network Reliability Framework commences in January 2003. Telstra should then be required to provide a formal undertaking to the Government on its strategy for raising the performance of these ESAs. Telstra's strategy should include specific timeframes and</p>	<p>Accept</p>	<p>The Government has written to the ACA asking it to identify the worst performing ESAs under the Network Reliability Framework, and ensure that Telstra improves the performance of these ESAs. Telstra will provide the Government with a formal undertaking on its strategy to improve the performance of these ESAs, including a timetable and funding commitments.</p>

<p>commitments of funding, and its implementation should be monitored and publicly reported by the ACA.</p>		
<p><b>RECOMMENDATION 2.10</b></p> <p>The Government should adjust and refine the Network Reliability Framework (NRF) as necessary over time to improve its operation. These refinements should include expanding the range of fault information provided under the NRF, and providing greater clarity for Telstra and regional, rural and remote consumers about strategies to improve reliability under the Framework.</p>	<p>Accept</p>	<p>The ACA will continue to refine the NRF as necessary to ensure that it provides an effective mechanism for improving the reliability of Telstra's telephone network.</p>
<p><b>RECOMMENDATION 2.11</b></p> <p>Telstra should be required to better inform the public about its policies for providing payphones, including ensuring that criteria for providing payphones are clearly and simply stated. Telstra's criteria and processes for payphone installation decisions should be reviewed by the Government. The Government should establish a clear policy on future payphone availability.</p>	<p>Accept</p>	<p>Telstra will take steps to better inform the public about its payphone policies.</p> <p>The Government will work with Telstra and the ACA to review payphone policy and ensure that the provision of payphones under the Universal Service Obligation (USO) continues to be effective and relevant.</p>
<p><b>RECOMMENDATION 2.12</b></p> <p>The sites of Telstra-operated payphones, together with the numbers of payphones at each site, should be made publicly and readily available. Consideration should be given to including payphone locations at least in local telephone directories in regional areas.</p>	<p>Accept</p>	<p>As in 2.11 above.</p>
<p><b>RECOMMENDATION 2.13</b></p> <p>Telstra should report as soon as possible to the Government on the causes of low levels of</p>	<p>Accept</p>	<p>As in 2.11 above.</p>

<p>performance in meeting payphone repair timeframes, and put forward a strategy for raising performance to an acceptable level, particularly in remote areas and Indigenous communities.</p>		
<p>RECOMMENDATION 2.14</p> <p>The Government should review the provision of payphone services to people with disabilities. In particular it should take steps to ensure that competition in the supply of payphones does not impact adversely on access to teletypewriter payphones.</p>	Accept	As in 2.11 above.
<p><b>Mobile phone services (Chapter 3, Term of Reference 1)</b></p>		
<p>RECOMMENDATION 3.1</p> <p>The Government, in conjunction with the carriers, should identify areas where extending terrestrial mobile phone service is still feasible through Government support for capital costs. The Government should consider providing funding support to such areas, which might include small population centres and key highways in regional areas.</p>	Accept	The Government has allocated \$15.9 million over four years to extend terrestrial mobile phone services to smaller communities and regional highways where additional coverage is feasible with Government support for capital costs.
<p>RECOMMENDATION 3.2</p> <p>The Government should consider extending the scope of its satellite phone subsidy scheme to cover all users with an appropriate need for a satellite service, and provide sufficient funds to meet full demand for the scheme.</p>	Accept	<p>The Government has allocated a further \$4.0 million over four years to extend the subsidy.</p> <p>The Government will undertake a review of the eligibility guidelines of the current satellite handset subsidy scheme.</p>
<p>RECOMMENDATION 3.3</p> <p>The Government and industry should inform consumers about</p>	Accept	The Government will ensure that the ACA provides comprehensive and relevant information

<p>mobile phone services, including technology and coverage limitations, fees and charges, mobile number portability, and contract issues. The ACA's Mobile [phone] Tool Kit has provided a valuable resource in this respect.</p>		<p>to consumers on mobile phone services, including technology and coverage limitations, fees and charges, mobile number portability and contract issues.</p>
<p><b>Internet services (Chapter 4, Term of Reference 1)</b></p>		
<p>RECOMMENDATION 4.1</p> <p>The benefits provided by the Internet Assistance Program for users of dial-up Internet services should be guaranteed into the future. A licence condition should be placed on Telstra that would require all Australians to be guaranteed dial-up Internet speeds, or equivalent throughput, over the Telstra fixed network of at least 19.2kbps. As part of the licence condition Telstra should be required to report on its compliance with the requirement, and more generally on the data speed performance of its regional network, which should be maintained at least at current levels.</p>	<p>Accept</p>	<p>The Government will impose a licence condition on Telstra to provide a minimum dial-up Internet speed for all Australians of 19.2kbps or equivalent throughput over its fixed line network.</p>
<p>RECOMMENDATION 4.2</p> <p>Telstra should be required to demonstrate that it has an effective strategy to address any dial-up data speed issues arising from poorly performing pair gain systems. Telstra should provide a formal undertaking to the Government in relation to any actions necessary to implement such a strategy.</p>	<p>Accept</p>	<p>Telstra will provide the Government with a formal undertaking on implementation of a strategy to address dial-up data speed issues arising from poorly performing pair gain systems.</p>
<p><b>Other key service issues (Chapter 5, Term of Reference 1)</b></p> <p><b>Remote Indigenous Communities</b></p>		



<p>RECOMMENDATION 5.1</p> <p>Telstra should place a high priority on the provision of payphones, or alternative community phone systems, in those remote Indigenous communities currently without access to telecommunications of any kind.</p>	<p>Accept</p>	<p>The Government will work with Telstra to ensure it adequately fulfils its obligation to provide payphones under the universal service obligation. Through the \$8.3 million Telecommunications Action Plan for Remote Indigenous Communities (TAPRIC) program the Government will offer community phones to remote Indigenous communities currently without access to telecommunications services.</p>
<p>RECOMMENDATION 5.2</p> <p>Telstra should commit to improving the delivery of appropriate Universal Service Obligation services to remote Indigenous communities, particularly through the deployment of specialised call centre staff and Indigenous liaison officers.</p>	<p>Accept</p>	<p>The Government will work with Telstra to improve delivery of USO services to remote Indigenous communities, including through the deployment of specialised call centre staff and Indigenous liaison officers.</p>
<p>RECOMMENDATION 5.3</p> <p>There should be more effective data collection and monitoring of telecommunications needs and services in remote Indigenous communities. The Australian Communications Authority should take a leading role in this area.</p>	<p>Accept</p>	<p>The Government will work with Telstra, the ACA and the Aboriginal and Torres Strait Islander Commission, under the TAPRIC program, to improve data collection on the telecommunications needs and services in remote Indigenous communities.</p>
<p>RECOMMENDATION 5.4</p> <p>The Government should consider providing ongoing support for IT training and support services in rural and remote areas of Australia, where there are not the same opportunities as in urban areas.</p>	<p>Accept</p>	<p>The Government has allocated \$10.1 million over four years for training and support in information technology skills for rural and remote communications users.</p>

<p>Further support should build on existing programs, such as Networking the Nation and State and Territory based initiatives.</p>		
<p><b>RECOMMENDATION 5.5</b></p> <p>All tiers of government should work together to support online access centres in regional, rural and remote Australia, and to enable these important community facilities to remain viable.</p>	<p>Accept</p>	<p>The Government will work with the Online Council on strategies to maintain the viability of online access centres, including those in remote Indigenous communities.</p>
<p><b>Higher bandwidth Internet services (Chapter 6, Terms of Reference 1 and 3)</b></p>		
<p><b>Recommendation 6.1</b></p> <p>The Government should investigate whether the timeframes for connection and repair of ISDN services that are required under the Digital Data Service Obligation should be more closely aligned with regulated timeframes applying to telephone services.</p>	<p>Accept</p>	<p>The Government will investigate the suitability of current timeframes for connection and repair of ISDN services.</p>
<p><b>RECOMMENDATION 6.2</b></p> <p>Some Telstra pricing arrangements for ISDN services seem discriminatory, and would appear to unduly favour Telstra over other providers. This should be brought to the attention of the Australian Competition &amp; Consumer Commission (ACCC).</p>	<p>Accept</p>	<p>The Government will seek formal advice from the ACCC on ISDN pricing arrangements, and whether they unduly favour Telstra over other providers.</p>
<p><b>RECOMMENDATION 6.3</b></p> <p>The Government should establish an incentive scheme for the provision of higher bandwidth services to regional, rural and remote areas, to enable all Australians to have access to services at prices comparable to those prevailing in metropolitan areas. A</p>	<p>Accept</p>	<p>The Government has allocated \$107.8 million over four years for a Higher Bandwidth Incentive Scheme.</p>

<p>preferred model for the scheme is provided in this report.</p>		
<p><b>RECOMMENDATION 6.4</b></p> <p>The Government should provide further support to communities to undertake demand aggregation strategies, and other activities that would support the take-up of higher bandwidth services. Support should also be considered to assist consumers and small businesses to make effective use of higher bandwidth opportunities.</p>	<p>Accept</p>	<p>The Government will contribute \$8.4 million over four years to demand aggregation brokers to work with communities to aggregate regional demand for higher bandwidth services.</p>
<p><b>Legislated consumer safeguards (Chapter 7, Term of Reference 4)</b></p>		
<p><b>RECOMMENDATION 7.1</b></p> <p>Measures should be taken to provide telecommunications consumers with a simplified statement of their legislated rights, and to get the message to them more effectively. A one-page Summary of Telecommunications User's Rights is recommended. The Government should explore all relevant channels to ensure that information is provided to consumers where and when they most need it.</p>	<p>Accept</p>	<p>The ACA will provide further information to consumers on their legislated rights.</p>
<p><b>RECOMMENDATION 7.2</b></p> <p>Data on telecommunications compliance and performance should be collected at an appropriate level of disaggregation to allow ready assessment of relative performance levels. The ACA should put in place a data collection framework, to ensure comprehensive, disaggregated, standardised and meaningful collection of data on regional, rural and remote telecommunications services</p>	<p>Accept</p>	<p>The ACA will establish an integrated framework for the collection of data on telecommunications services and service performance.</p>

and service performance.		
<p>RECOMMENDATION 7.3</p> <p>The Australian Communications Authority should examine how it can best communicate to the public and consumer representatives its regulatory philosophy and approach, and examine whether and how it should provide greater clarity and certainty about its regulatory enforcement activities.</p>	Accept	The ACA will clarify its regulatory philosophy and approach for consumers.
<p><b>Telstra's local presence (Chapter 8, Term of Reference 5)</b></p>		
<p>RECOMMENDATION 8.1</p> <p>Telstra should be required to maintain an ongoing local presence in regional, rural and remote Australia. The requirement should only apply to Telstra consistent with its status as the primary universal service provider. The requirement should not be unduly prescriptive or burdensome, and should be broadly compatible with Telstra's commercial interests.</p>	Accept	The Government will impose a licence condition on Telstra to maintain a local presence in regional, rural and remote Australia, including through developing a local presence plan, and reporting publicly on its achievements against the plan.
<p>RECOMMENDATION 8.2</p> <p>Telstra should be required to develop and publish a local presence plan to set out the range of activities and strategies it would deploy in regional Australia to address the Government's broad objectives. Telstra would be required to regularly report on its achievements against the plan and to demonstrate to the Government, and to regional communities, that it was providing an effective and beneficial local presence.</p>	Accept	As for 8.1 above.

<b>Sharing future benefits (Chapter 9, Term of Reference 6)</b>		
<p>RECOMMENDATION 9.1</p> <p>The Government should put in place a process to regularly review telecommunications services in regional, rural and remote Australia, and to assess whether important new service advancements are being delivered equitably in those areas.</p> <p>The review process should be linked to a strategic plan for regional telecommunications, and underpinned by ongoing arrangements that provide a high degree of certainty that Government funds will be made available to support service improvements in regional, rural and remote Australia, where they will not be delivered commercially within a reasonable timeframe.</p>	<p>Accept</p>	<p>The Government will develop a strategic plan for regional telecommunications in consultation with key stakeholders.</p> <p>The Government will legislate to require regular reviews on the adequacy of services in regional, rural and remote Australia to be undertaken by an independent expert panel appointed by the Minister for Communications, Information Technology and the Arts. Reviews will be structured and carried out in line with RTI Recommendations 9.2, 9.3 and 9.4, and must be undertaken no later than five years apart.</p>
<p>RECOMMENDATION 9.2</p> <p>Establishing a structure for future reviews of regional, rural and remote telecommunications services should:</p> <ul style="list-style-type: none"> <li>• provide certainty for regional, rural and remote communities;</li> <li>• ensure that reviews are independent from executive government;</li> <li>• allow for flexible and appropriate policy responses to meet the range of needs in regional, rural and remote Australia; and</li> <li>• promote competition and commercial service</li> </ul>	<p>Accept</p>	<p>The legislation referred to in 9.1 above will specify that the review must be conducted by a panel that is independent from Government.</p>

<p>delivery as the most effective and sustainable service outcome.</p>		
<p>RECOMMENDATION 9.3</p> <p>The scope of regular reviews of regional, rural and remote telecommunications services should be flexible, but there should be a core focus on assessing whether important new telecommunications services are available equitably across Australia.</p>	<p>Accept</p>	<p>As for 9.1 above.</p>
<p>RECOMMENDATION 9.4</p> <p>Future governments should be legally obliged to respond publicly to the recommendations of future reviews, and to justify responses that are not in accord with review recommendations.</p>	<p>Accept</p>	<p>The legislation referred to in 9.1 above, will specifically require the reports of the reviews to be tabled in Parliament and require the Government to prepare a formal, public response to the report's recommendations.</p>
<p>RECOMMENDATION 9.5</p> <p>The Government should provide funding for future service improvements in regional, rural and remote Australia, rather than imposing financial obligations on industry.</p>	<p>Accept in principle the intent of this recommendation</p>	<p>The Government accepts the principle that support for non-commercial service improvements in regional Australia should be provided transparently by Government, and should aim to promote competition and minimise market distortions.</p>
<p>RECOMMENDATION 9.6</p> <p>The Government should ensure that regular reviews of regional telecommunications services are supported by organisational arrangements that provide a strong focus on monitoring and assessing regional, rural and remote service levels. The ACA would be an appropriate body to undertake this function.</p>	<p>Accept</p>	<p>Both the DCITA and the ACA will continue to focus strongly on regional telecommunications issues, including through ongoing improvements to monitoring and assessing regional, rural and remote service levels.</p>