



all communication to
GENERAL MANAGER

our ref: GB:RD: S373:02-8800

your ref:

contact: Graeme Blanch

The Secretary
Parliamentary Joint Committee on Corporations
and Financial Service
Room SG64
Parliament House
CANBERRA ACT 2600

October 10, 2002



Dear Sir

**RE: INQUIRY INTO THE LEVEL OF BANKING AND FINANCIAL SERVICES IN RURAL,
REGIONAL AND REMOTE AREAS OF AUSTRALIA**

Please find attached the key issues that can improve the banking and financial services situation for Lismore received from the Summerland Credit Union Ltd in relation to the above inquiry.

Yours faithfully

Graeme Blanch
FINANCIAL ACCOUNTANT

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Submission for:

*The Inquiry into the level of banking and financial services in
rural, regional and remote areas of Australia*

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Prepared by:

*The Summerland Credit Union Limited
NSW Far North Coast*

The Summerland Credit Union is a locally owned regional financial institution that is geographically located on the Far North Coast of NSW. With a network of 12 locally based branches, the Credit Union operates within six, (6) Local Government areas (LGA's), with a serviceable population well in excess of 200,000 people. The Credit Union currently has over 26,000 members, and assets under management of around \$200 million.

Whilst the Credit Union is not large in comparison to most banks, it is considered a medium sized credit union and is the largest locally owned and operated credit union on the Far North Coast of NSW.

The huge decline in bank branches throughout regional Australia over the past decade has been a well documented phenomenon. It has resulted in a disastrous public relations exercise for the banking industry whilst at the same time delivering them record profits.

As a result of this widespread disenchantment, alternative sources of banking businesses like Credit Unions (such as Summerland), Building Societies, Community Banks etc, have thrived within this region, as many local people and businesses have been forced to make alternative arrangements.

In the past ten years we are aware of at least 26 bank branches closing within the Richmond and Tweed Valleys, whilst services have been severely reduced in a score of others. This is despite the fact that this region is continuing to grow quite strongly, as the "seachange" phenomena continues to see metropolitan babyboomers and others, seek a better lifestyle in regional areas.

In a similar period, the Summerland Credit Union has opened 6 new branches whilst the two other local credit union have opened a further three.

It is clear that the banks have different view 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.

Slightly further afield, LGA's such as Ballina, Byron Bay and Tweed Heads are experiencing unprecedented levels of population growth during this time. Whilst most of this growth is on the coast, the banks nonetheless, have cut services in both inland and coastal towns, resulting in a number of sizeable communities having greatly reduced or in some cases non-existent banking services.

This withdrawal of banking services has created significant opportunities for a number of smaller banks and non-bank Authorised Deposit Taking Institutions (ADI's), such as credit unions and building societies and an increasing number of mortgage originators.

The "Community Bank" phenomenon

In recent years the Bendigo Bank model has achieved an outstanding level of success in many regional communities Australia wide, simply because it allowed the actual community themselves to tackle the issue of banking services in a pro-active manner.

When a bank left town, the community was able to rally together in order to keep the banking services needed by the general population in place. Despite the banks' comments, most people do not want to conduct their banking at a post office or a newsagent. The truth is they feel more confident dealing with a dedicated office for such matters, and being able to talk to a local manager and staff who understand their needs and requirements.

For many years also, Credit Unions like Summerland have been providing the same type of alternative banking arrangement, although the Credit Unions do have a reliance on the National Australia Bank as a clearance house for all cheques. This can also create problems of clearance time, particularly if there is no NAB that operates in that town.

The Summerland Credit Union has not opened new branches in recent years because we simply believed it to be a good idea. New branches have been opened due to the demand shown by the local population, and following extensive feasibility studies undertaken by the organisation.

It is true however that some areas will never be viable or profitable to open a branch facility. As a business, we will continue to undertake feasibility studies in this regard as the Credit Union is subject to the same APRA regulations and measurements of all other financial institutions in Australia, both large and small alike.

Some of the newer branches that we have opened such as Bangalow, Ocean Shores and Evans Head are marginally profitable ventures for the Credit Union despite the fact that the main reason the banks originally left these areas was that they deemed them as "unprofitable" by the banks themselves.

However, this is hardly surprising given the banks' current public relations crisis with regard to closures and downgrading of regional services. While they try to play down and suppress the impact of these closures on smaller regional towns and communities, at the end of the day they are still reducing or removing completely a vital service that is important to almost everybody within the community as a whole.

We have seen this impact first hand, as the public support for our new branch openings mentioned above was overwhelming.

So, in one capacity the banks have made our job a little easier, because they have upset or ignored a large section of people who showed them loyalty over many years. They have provided people with a limited number of options in order to continue their banking relationship, or have left them out in the cold completely.

The big difference however with Credit Unions/community banking etc, is that they are actively seen to be opening branches and deliver their products with a level of personal service that the banks forgot about years ago, and apparently seem intent on neglecting in the future as well.

The credit union Response

Up until now, Summerland Credit Union has positioned itself as a market nicher through almost all its advertising and promotional activities, relying on a parochial mix of Far North Coast ownership and operation in the local area, along with innovative services to members.

It was identified in the Credit Union's SWOT analysis that price itself was never going to be a position of strength for Summerland, and accordingly all activities have encompassed the other key factors to a greater degree. Despite the fact that the Credit Union does exercise a degree of price sensitivity and fluctuation, this is achieved on a more individual basis rather than broad based promotion.

The key strength upon which the Credit Union has been successful are the factors in which Summerland currently exercises a distinct advantage over the majority of its competition, ie. local knowledge and ownership, service and availability.

Summerland continues to heavily promote a number of key technology based platforms for the delivery of electronic and Internet based banking services to members such as our *PC Access*, *AccessPlus*, and *D.I.A.L* telephone banking products.

Most importantly however, Summerland continues to provide members with a choice when it comes to the mode of delivery for services.

This fact has been brought to the fore by recent admissions from major financial institutions that their directive of closing branches may have been too premature, and they are witnessing a return to core banking values that the e-commerce promise simply cannot deliver in full.

In fact a recent Ernst & Young report published on 10 October 2001 found that *"financial services providers are increasingly deciding that e-commerce will never deliver the promised financial services sector revolution, and are rethinking their branch closure strategies."*

Clearly the rush to assimilate all Australians with the benefits of electronic banking technology has been too hasty.

In the Far North Coast marketplace, it is quite common for our members to require a multi-tiered system of delivery. Some members require that they receive face-to-face services, whilst others enjoy the benefits of on-line banking or over the phone service.

The omnipotent factor for consumers here is the concept of choice, rather than being "herded" toward utilising a particular mode of service delivery.

The other significant point to note with regard to the delivery of electronic banking services is the fact that many areas on the Far North Coast of NSW are still not up to a satisfactory standard when it comes to telecommunication facilities, lacking consistency and reliability. To this end, it would greatly assist if Telstra could extend its broadband services to a far greater number of North Coast centres

It is no surprise that many people still require the reliable presence of a locally based banking network with "bricks and mortar" branches.

Government Response to Reduced Services

Credit Care, an initiative of the then Federal Government had its genesis in the discontent and frustration brought on by the growing lack of access to financial services in rural areas. This first emerged as an issue of real concern in 1994, peaked in 1996-1997 and in the face of strident criticism eased somewhat as the 1998 Federal election approached.

Working in partnership with local councils and their communities, Credit Care established banking services in a large number of small and remote townships. The exact number of towns assisted in this manner is not known but it is thought to be around sixty. In most cases local credit unions played a significant role in helping to establish such services.

In the lead up to the 1998 Federal elections the coalition announced its **Rural Transaction Centres (RTC)** policy to replace the Credit Care programme. Under this programme, the government has made funds available to help small communities establish their on centres providing access to basic transaction services such as banking, postal, Medicare, phone and fax.

The Summerland credit union has been involved in one such programme at Coraki, a small mid-Richmond community of less than 2000 residents. The credit union will pay commission on services performed on its behalf and has been asked to participate in the steering committee. It is expected that this RTC, which will include medical

services, will be operational by June 2003. It should be stated that it has taken almost three years to reach this stage.

Credit Unions Can Only Do So Much!

Whilst the credit union industry remained quiet stable and consistent between the years 1950 to 1994, the introduction of taxation and then the Wallis Report changed the credit union industry irreversibly. The level playing field so sought after by the old industry leaders has resulted in levels of regulatory pressures and competition never experienced previously. Since 1999 it is quiet clear that the survival of the credit unions depends upon prudent financial practices, modern management skills and outstanding marketing initiatives.

These days the ability of credit unions to further assist small and remote communities is severely restricted by the need to satisfy the requirements of the prudential regulators. Credit Unions are no longer "not for profit" organisations and are now required to complete on the same terms and conditions as every other ADI. The need to be profitable and to therefore maintain appropriate levels of capital, has required credit unions to bring old management practices into sharp focus.

Whereas in the past, credit unions may have been inclined to provide a banking service that was subsidised or non-viable, they no longer have this luxury. Every decision to open a branch must be based on a sound commercial business plan and must quickly return a profit to the organisation. In earlier days the credit union was prepared to open a new branch in the knowledge that it would take a number of years to return a profit. This is no longer possible.

The Need for Continued Support

Despite the recent government, credit union and community banking initiatives, there are still a large number of communities, particularly those away from the coast, demanding a banking presence. The credit union is regularly approached by these communities to open a branch, agency or in some cases simply to install an ATM.. Whilst it would like to assist wherever possible, the cost of establishing and maintaining a branch together with the negative impact so far as meeting the new prudential standards are concerned, makes this impossible.

The continued establishment of RTC's 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 RTC's meet their banking needs but also to 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.

When the RTC concept was first mooted it was envisaged that up to 500 centres would be opened, with initial funding (from the sale of Telstra) of \$70 million. The current round of funding is set to expire in June 2004.

To date there have been only 49 RTC's established with, a smaller number still in the pipeline. One of the principal problems experienced in setting up RTC's has been the length of time taken to establish each centre. This can be due to a number of reasons, ranging from the difficulties in galvanising local support, through to overcoming the bureaucratic obstacles associated with any government funded scheme.

The Summerland Credit Union would like to see the following initiatives:

- A further financial commitment to fund the establishment of a far greater number of Rural Transaction Centres, as was initially intended;
- The programme administration to be streamlined to speed up the process of establishing an RTC. This could involve the elimination of a number of layers of government involvement with say funding provided direct to local government;
- Relief for participating financial institutions in the form of either tax relief or a relaxation of prudential standards;
- Credit Unions in particular have a social charter to provide cooperative banking services to those overlooked by the traditional banking services. Participation in the RTC programme sits very comfortably with this charter and is an area in which the credit union industry has considerable expertise. It may facilitate the rolling out of such a programme where the administration of the scheme left in the capable hands of the credit union's peak body CUSCAL.
- Continued commitment from Telstra and the Federal Government to improve data transmission technology, allowing financial institutions greater flexibility and reliability when delivering electronic products.

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.

The whole concept of centralisation versus decentralisation is a separate but related issue. For too long rural communities, both large and small, have seen a gradual withdrawal of services back to the cities and larger regional towns, for a variety of reasons which are not always based on economics. In doing so they have removed much of the infrastructure that has proven to be vital to the ongoing viability of many of the communities.

By returning these services governments, state and federal, will go a long way to restoring loss confidence and encourage further investment. This in turn will lead to the creation of more employment opportunities thus halting the exodus to the cities. It may in some way assist in taking the heat out of the property markets within the city

and relive the pressure on finding new land to accommodate the rapid growth being experienced.

Because we are locally owned, operated and staffed, we have a vested interest in and concern for the overall prosperity and financial well being of not only individual people, but also the community itself.

The banking environment itself continues to be a multi-faceted and dynamic frontier, and one where a simplistic, one-size-fits-all approach is simply too rigid and untenable for a large percentage of the population.

For most financial institutions the cost of legislation and industry compliance, as well as the size of the regional markets in question have become the primary reason why they cannot, or will not open in regional areas. APRA must look to provide some form of capital relief to encourage servicing in these areas, as well as the Government providing tax incentives (which were previously provided), for institutions that service these regions. The Government should also look toward decentralisation in order to build these local markets up, as well as providing incentives for these institutions to remain in these regional areas.

The Summerland Credit Union Limited welcomes this opportunity to contribute to this enquiry and thanks LEDAB and other authorities who have made this possible. We trust that the foregoing views and recommendations will be of some assistance.
