

Submission to the Parliamentary Joint
Committee on Corporations and Financial
Services

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

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1. Introduction

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.

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. Consumers were becoming more sophisticated, computer literate and comfortable with the newer electronic delivery channels.

Advances in communication and information technologies both lowered the 'barriers to entry' for new competitors and integrated or 'globalised' financial markets – share markets, foreign exchange and money markets.

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. Productivity growth in the banking sector has outstripped growth in the economy as a whole, which is quite notable during a period of productivity growth above the long-run average.

The performance bar in terms of return on investment has been permanently raised. In rural areas where larger regional centres are growing at the expense of smaller towns, this is problematic for service providers and the demographic trend appears set to continue. The issue is how to reconcile the economic imperative of making an adequate return on capital in the current context with the obligations ANZ believes it has to the community broadly and the communities in which it operates in particular.

In July 1998, in recognition of its obligations, ANZ introduced a moratorium on withdrawing face-to-face services from any of the rural communities in which it operates. The moratorium has been enshrined as a 'promise' in ANZ's Customer Service Charter.

In addition to its branch and 'own agency' network of 364 outside of major capital cities, ANZ operates 73 third party agencies (lower cost delivery of basic transaction services through using third party premises and labour), provides mobile managers who travel to the customer and participates in Rural Transaction Centres (RTCs).

In terms of the way forward, research by the University of Adelaide (2002, p.6) commissioned by the Australian Bankers' Association defines the current scope of the issue: there are 32 localities (with populations over 200) in Australia that do not have access to a banking service within 20 kilometres. In addition to these localities there are some where face-to-face services are provided to personal customers but not to business customers.

ANZ supports both continued rollout of the Government's RTC initiative and exploration in conjunction with Government and the community of other possible solutions such as branch sharing, that could be used in those locations where service provision would otherwise not be commercially viable.

2. Demographic factors affecting representation in rural areas

Reasons for changes in representation are essentially the same in both metropolitan and non-metropolitan areas. Industry financial performance hurdles have risen as the competitive environment has changed as described above.

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. The fastest population decline in Australia has occurred in rural areas, mostly caused by net migration loss associated with "technological, social and economic changes and industry restructuring in local economies" (Australian Bureau of Statistics *2002 Year Book Australia*, page 84).

Global pressures have led to the need for local industries such as farming to amalgamate to achieve economies of scale. Bernard Salt in his report *The Big Shift* (July 2001) highlighted the 'sponge city' effect where larger regional centres such as Dubbo and Wagga Wagga in NSW, Horsham in Victoria and Narrogin in WA have soaked up the population loss from the farm amalgamations in surrounding small and remote towns. As Salt illustrates, the 57 local government areas in rural Australia jointly contained 173,159 people in June 1976. This fell to 120,004 by June 2000 "representing an average loss of 1.5 per cent per year". This compares with average annual growth rates of between 1.1 per cent and 1.3 per cent for the whole of Australia in recent years. The most recent data from the Australian Bureau of Statistics Census 2001 indicate that these trends are continuing.

In addition to the above trends in overall population movements, the ageing of small town populations is further decreasing the commercial viability of branches in small towns. Low cost travel and world-wide opportunities have led to younger generations leaving small towns to explore further education and employment in the cities and overseas. The resulting lack of potential for growth in the towns they leave means that there are limited prospects of branches in these locations reaching required financial performance levels in the future.

While they are not the sole cause of the reduction in face-to-face banking over time, these demographic trends have ensured a more pronounced effect in parts of rural Australia of increased competition in the market and the shift in customer preferences towards electronic banking channels.

3. Serving rural customers

3.1. Points of representation

The table in Attachment 1 shows ANZ's points of representation in rural areas and major regional centres. ANZ has 276 branches/agencies and 73 local link agencies (operated by a third party) in rural areas and a further 88 branches/agencies in major regional centres. This amounts to 53 per cent of ANZ's face-to-face points of representation located outside of major capital cities compared with 36 per cent of Australia's population.¹ While ANZ-operated 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.

Since the early 1980s ANZ has introduced ATMs in a number of rural areas, both at ANZ branches and off-site. As shown in the table ANZ has 178 ATMs in rural and remote areas and 139 ATMs in major regional centres. There are nevertheless a number of ANZ branches which do not have an ANZ-branded ATM on site or located nearby. To accommodate this, ANZ provides a concession to customers transacting at these branches so that they are not paying more for their banking. For all ANZ card based accounts that have a monthly quota of free withdrawals such as ANZ Access Select and Deeming, the monthly quota can all be carried out at the branch (note that the concession is not necessary for the ANZ Access Advantage account which has unlimited withdrawals for a monthly fee of \$5). Additional branch card withdrawals are charged at the ANZ ATM excess withdrawal rate only.

3.2. Other electronic channels

The table in Attachment 1 understates points of access for customers in that it does not include other electronic transaction channels such as EFTPOS, phone banking and Internet banking. ANZ's market research shows similar usage of EFTPOS and phone banking for non-metropolitan customers compared with all retail customers for both groups, with around 60 per cent and 40 per cent using EFTPOS and phone banking respectively in the 12 months to October 2001.

¹ Based on ABS Estimated Residential Population Statistics for Capital City Statistical Divisions as at 30 June 2002.

However, there is greater disparity in the usage rates between non-metropolitan customers and all retail customers for Internet banking. Eighteen per cent of non-metropolitan customers used Internet banking in the 12 months to October 2001 compared with 26 per cent of all retail customers. Part of this disparity may be due to the infrastructure limitations in regional areas.

The customer experience of Internet banking is highly dependent on the level of their Internet connection. Secure sites such as Internet banking use the highest level of encryption which requires a high level of Internet Service Provider (ISP) connection. In metropolitan areas many customers access Internet banking at work through large corporate local area networks, which are capable of providing a highly efficient Internet service. Customers in regional areas are much less likely to access Internet banking through large corporate local area networks and more likely to access Internet banking at home through a relatively lower level of ISP connection.

3.3. Moratorium on branch closures

ANZ is conscious of the impact a branch closure can have on a rural community, particularly where it is the last branch in the town. For small businesses, with a need for cash services to take deposits and provide change, closure of a bank branch can present particular issues.

In July 1998, as part of ANZ's commitment to maintaining face-to-face banking services in rural areas, ANZ therefore introduced a moratorium on withdrawing from rural communities. This commitment to face-to-face banking in rural communities was enshrined as a promise in the ANZ Customer Charter in April 2002.

The moratorium on branch closures is a 'first step'. It can not address the underlying factors that have made delivery of financial services through branches uneconomic in areas where populations are low and declining. ANZ has therefore explored a range of alternative approaches to serving rural customers and is open to exploring others.

3.4. Other approaches

3.4.1. Opening new branches

ANZ opened a new branch in the south-west Victorian town of Koroit in July this year. This decision was in response to a unique set of circumstances including clear and demonstrable community support for the branch (for example the local Shire Council moving its banking to ANZ) and the National Australia Bank decision to close branches in Koroit and Mortlake which helped ANZ attain a critical mass of customers. These factors improved the business case for a branch, which would not have been considered viable on a commercial basis previously.

3.4.2. *GiroPost*

ANZ has explored the option of joining Australia Post's giroPost initiative. GiroPost provides a good basic transaction service for personal customers and has also begun piloting services for small business customers. While giroPost would expand ANZ's reach to more customers for basic bank transactions, it would also duplicate services currently delivered through branches in around three quarters of the rural locations in which ANZ operates. Clearly, duplication is not economic and closing branches in order to join giroPost is not a course ANZ wants to take.

3.4.3. *Branch sharing*

The British Bankers' Association (BBA) launched a pilot into the provision of shared banking services in the United Kingdom (UK) on 2 January 2002. The 12-month pilot is operating in 10 locations across England and Wales where there is only one bank branch and no other within approximately five miles (about eight kilometres). Personal and small business customers of major banks including Barclays, HSBC, Lloyds TSB and NatWest will be able to undertake basic banking services through another participating bank's branch. As it currently stands, the majority of customers use the service for cheque and cash deposits.

ANZ understands the results of a full evaluation of the pilot and a decision on the way forward will not be known until at least April 2003. The results of the UK pilot will be useful for considering the feasibility of branch sharing in Australia, although we will need to recognise and take account of differences between the UK and Australia such as the higher population density of the UK and shorter distances between towns.

ANZ believes that the sharing of branch infrastructure between major banks in rural Australian towns could raise a number of issues within affected communities that would need to be addressed in the consideration of any model, such as:

- perceptions that branch sharing may result in a reduction in banking services;
- concerns that branch sharing may have a negative impact on the local community in terms of unemployment if it results in a reduction in the number of branches in the town;
- whether the banking services available would meet the needs of the local community. That is, whether it would only provide basic transaction services such as giroPost or whether it would provide more complex banking services such as establishing and re-financing loans, business cash handling or business relationship management; and

- potential competition issues that it could raise under the Trade Practices Act 1974.

ANZ is of the view that for branch sharing to be a feasible option the above issues would need to be resolved and would support joint exploration with the Government and others of options for addressing these issues.

3.4.4. Rural Transaction Centres

In some rural and regional areas the introduction of full branch banking services will not be as viable in as it used to be due to the size of the population and the proximity to other ANZ branches. ANZ believes that the Federal Government's Rural Transaction Centre (RTC) initiative is one way to address this.

The RTC programme is a Federal Government initiative which aims to assist smaller rural towns (up to populations of 3000) with access to basic services such as banking and postal services, Centrelink, Medicare and facsimile services. Federal Government funding is provided to assist with establishment costs and some of the ongoing operating costs, with expectation that the RTC will become "self-funding" in the early years of operation.

The initiative requires that a non-profit organisation apply for funding, which can include local government councils or organisations of councils, incorporated regional development organisations, community or progress associations and chambers of commerce. The program encourages partnership with other non-profit organisations and private profit making businesses.

ANZ strongly supports this initiative which so far has been successful in increasing the level of face-to-face banking services in a number of rural and regional locations. 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 Australian Rural Transaction Centres in Port Broughton and Port Macdonnell. Customers at these locations can also make appointments with the branch manager from the parent branch for their lending needs.

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. ANZ would welcome the opportunity to participate in more Rural Transaction Centres in the future.

4. Conclusion

ANZ is conscious of the impact a branch closure can have on a rural community. In response, ANZ made a commitment in 1998 to maintaining face-to-face banking services in rural areas. This commitment was enshrined as a promise in the ANZ Customer Service Charter in April 2002.

It needs to be acknowledged, however, that the environment in which we operate is dynamic. Demographic shifts continue to occur and the competitive pressures that have reshaped the way that traditional providers of financial services – banks – operate remain.

ANZ strongly supports the RTC initiative as a viable alternative for providing face-to-face banking services in communities where a traditional branch is uneconomic. ANZ would also support exploration in conjunction with Government and the community of other possible solutions such as branch sharing, that could be used in those locations where service provision would otherwise not be commercially viable. ANZ is of the view that for branch sharing to be a feasible option a range of issues would need to be resolved. Key issues to be addressed include potential local community concerns about the possible employment effects of the proposal and the potential competition issues it would raise.

Attachment 1: ANZ points of representation, rural/remote and regional centres as at September 2002

Location	Branches (incl ANZ agencies)	Local link agencies (3rd party operated)	ATMs		Total ATMs	Night safes at branches
			On-site ATMs (at branches or agencies)	Off-site ATMs		
NSW						
Rural/remote	66	10	36	5	41	20
Regional centres						
Newcastle & Central Coast	16		15	11	26	11
Wollongong region	10		8	2	10	3
<i>Total</i>	26	0	23	13	36	14
Total NSW	92	10	59	18	77	34
Victoria						
Rural/remote	71	8	32	6	38	22
Regional centres						
Geelong region	9		8	3	11	3
Ballarat region	4		4	2	6	2
Bendigo region	2		2		2	2
<i>Total</i>	15	0	14	5	19	7
Total Victoria	86	8	46	11	57	29
Queensland						
Rural/remote	54	4	42	3	45	5
Regional centres						
Gold Coast	14		14	11	25	6
Toowoomba	2		2	3	5	1
Sunshine Coast	11		10	8	18	5
Cairns	3		3	6	9	3
Townsville	4		4	3	7	3
Rockhampton	4		4	1	5	2
Mackay	2		2	1	3	1
<i>Total</i>	40	0	39	33	72	21
Total Queensland	94	4	81	36	117	26

Location	Branches (incl ANZ agencies)	Local link agencies (3rd party operated)	ATMs			Night safes at branches
			On-site ATMs (at branches or agencies)	Off-site ATMs	Total ATMs	
Western Australia						
Rural/remote	23	13	16	5	21	7
Regional centres						
Mandurah	2		2	2	4	1
Total Western Australia	25	13	18	7	25	8
South Australia						
Rural/remote	44	19	16	1	17	23
Tasmania						
Rural/remote	13	16	7	1	8	5
Regional centres						
Launceston	4		4	3	7	1
Kingston	1		1		1	1
<i>Total</i>	5	0	5	3	8	2
Total Tasmania	18	16	12	4	16	7
Northern Territory						
Rural/remote	5	3	4	4	8	3
Total rural/remote	276	73	153	25	178	85
Total regional centres	88	0	83	56	139	45
Total	364	73	236	81	317	130

Source: ANZ