



Hon. Mike Rann MP

The PREMIER of SOUTH AUSTRALIA

State Administration Centre
200 Victoria Square, Adelaide

GPO Box 2343
ADELAIDE SA 5001

Telephone
(08) 8463 3166

ISD
61-8-8463 3166

Facsimile
(08) 8463 3168

premier@saugov.sa.gov.au

[www.ministers.sa.gov.au/
premier](http://www.ministers.sa.gov.au/premier)



DPC 02/03031

Dr Kathleen Dermody
Committee Secretary
Parliamentary Joint Committee on Corporations
and Financial Services
Room SG.64
Parliament House
CANBERRA ACT 2600

Dear Dr Dermody

I am writing in response to a letter I received from Senator Grant Chapman, Chairman of the Parliamentary Joint Committee on Corporations and Financial Services, inviting my Government to make a written submission to the Parliamentary Inquiry into the level of banking and financial services in rural, regional and remote areas of Australia.

Background

The Australian financial system is undergoing a period of substantial change, the impact of which continues to transform the delivery of banking and like services. The changes include an increase in the number of players and types of organisations involved in the delivery of financial services and, notwithstanding this increased competition, an increased reliance by those institutions on fees and charges as a significant source of revenue and steady growth of their collective profits over the last decade.

Changes also include a significant increase in the number of alternative channels available for the delivery of services. Most of these channels are electronically based and include Automatic Teller Machines (ATMs), Electronic Funds Transfer at Point of Sale (EFTPOS), telephone banking and Internet banking.

These developments have the potential to significantly enhance the access that communities have to financial services. However, the introduction of these channels has been accompanied by a process of rationalisation of the traditional bank branch network.

Although this process has affected urban and rural areas, its impact has been particularly serious for regional and remote communities. For many of these, it has resulted in reduced access to or loss of banking and like services.

The methods of delivering financial services will continue to evolve as financial institutions respond to changes in the global and local business environments in which they operate and as developments in technology continue to refine existing mechanisms and create new ways for delivering banking and like services.

Communities are in a period of transition as they adapt to a myriad of changes in the systems in which they operate. Policy makers need to ensure that communities in regional and remote Australia, particularly those least able to take advantage of the new technology, maintain reasonable access (physical and financial) to banking and like services in the short term and, ultimately, gain improved access in the long term.

The rationalisation of bank branches reflects an increasing use of smaller agencies (including Australia Posts' giroPOST) and electronic banking through ATMs and the like.

The banking industry is becoming less labour intensive, with consequent impacts on employment in this sector. Notwithstanding this trend, Australia still has a relatively high level of bank branches per capita by international standards.

In a 1999 study¹ of the impact of bank branch closures on rural communities, three levels on which the impacts are felt were identified: namely individual, business and community.

Impact on individuals

The withdrawal or downgrading of banking services can impact upon individuals in a number of ways:

- Individuals suffer the inconvenience and increased cost of having to travel to do their banking. This can have security implications if large amounts of cash are involved. This also adds to the cost of banking through fuel costs, wear on motor vehicles, and time required to travel.
- Savings are reduced due to the disruption of regular savings patterns and the increased costs of banking.
- Difficulties in cashing cheques.
- Lack of access to financial advice.
- Increased need for credit from local businesses in lieu of cash.

Specific groups may suffer additional difficulties. The elderly may not have access to, or be able to afford transport in order to travel to the nearest branch and new technologies are often difficult for them to understand and use. Physical handicaps such as arthritis, memory difficulty or sight-impairment may place further restrictions on the elderly if counter services are not available.

People with other disabilities face similar problems. For example, wheelchair access to an ATM or EFTPOS facility may not be available or the nature of one's disability may make using electronic banking difficult. Low-income earners and those on welfare payments are similarly disadvantaged due to a lack of transport and the difficulty in cashing cheques.

Impact on business

Similar concerns are shared by businesses, such as increased travel in order to access direct banking services (along with the associated security concerns) and the lack of

¹ Reserve Bank of Australia Bulletin 1999.

access to financial advice that was traditionally provided by local bank staff with a wealth of local knowledge.

The withdrawal or downgrading of banking services specifically impacts upon rural businesses in the following ways:

- An increase in the demand for cheque cashing services.
- Delays in the depositing of cheques which then delays the honouring of cheques.
- The loss of cash sales due to consumers shopping in larger towns which have banking facilities.
- The accumulation of excess cash due to an inability to deposit takings on a daily basis.
- An increase in bad debts due to the need to extend credit to local customers who do not have regular access to cash.
- Increased security concerns due to the lack of secure facilities to deposit takings and the need to transport large amounts of cash to and from the nearest bank branch in an unsuitable vehicle such as a private car.
- Difficulties in obtaining small change.
- Farming businesses are particularly disadvantaged by the loss of bank staff with intimate knowledge and experience in rural banking.

Impact on the community

The closure of branches affects the economic and social capital of communities. As people are forced to travel to larger centres to do their banking, they often do their other business and shopping in those centres as well.

A number of reports² have found that bank closures result in a 10 to 20 per cent fall-off in trading at local shopping districts and that changes in the financial environment after the closure of a branch also results in a loss of financial investment in the towns.

In addition to the direct loss of jobs, the closure of bank branches also leads to the loss of bank staff from the town. The fall in population that results may affect the level of resources available for other services, including schools, and lead to a domino effect as other services are withdrawn.

Banks have traditionally had high standing as local institutions in country towns and represent for the community, at least symbolically, solidity and prosperity. They are perceived to be pillars not only of the economic fabric of towns but of the social fabric as well.

Bank managers and their staff often occupy positions of importance and trust in community organisations. The loss of these personnel is a significant loss in terms of social capital.

The impact on a community of the loss of a bank branch is of concern even to members of that community who are reasonably well served by alternative channels being introduced by financial institutions.

² Reserve Bank of Australia Bulletin 1999.

Small Business – Banking Product Transparency

There is a growing requirement for greater transparency regarding banking products for small business operators. The ability of small businesses to switch banking providers, or to simply contemplate a switch, is unnecessarily restricted by a lack of readily available information on comparative banking products.

Compounded by reduced access to information via traditional financial service delivery channels, this lack of transparency limits the ability of small business operators to make informed decisions about the most appropriate product and provider for their particular business requirements.

Community Banking

In 1999 Virginia, to the north of Adelaide, opened South Australia's first Community Bank branch of Bendigo Bank. This occurred after the owner of the local supermarket, Mr Frank Tassone, learned that the Commonwealth Bank was closing its branch in Virginia.

Fearing this would lead to a reduction of between 20-40% in local takings as locals did their banking and business elsewhere, Mr Tassone contacted Bendigo Bank about establishing a Community Bank in Virginia.

Representatives from Bendigo's Community Bank Team met with a committee from the town. This began the process of gathering broad community support for the Community Bank concept and raising start up capital.

The Community Bank has kept existing businesses in Virginia viable by stopping the domino effect that occurs (dying town syndrome) when a bank or other significant service provider leaves a small town. Without the Community Bank, many businesses would have closed or left Virginia, and residents would have to travel over 10 km to Smithfield or Elizabeth to do their banking.

Stories abound interstate, that following the establishment of a Community Bank, local business takings have increased, businesses have expanded and new businesses have started up. One town wants to use the surplus from its Community Bank to set up a light industrial district to attract businesses back to their town and offer job opportunities to their community.³

Community Banks require a relatively large customer base in order to achieve critical mass and so may not be a viable solution in all circumstances.

Rural Transaction Centres

Under the Rural Transaction Centres (RTC) Programme, up to \$70 million has been committed by the Commonwealth to introduce new services into smaller rural towns and replace ones that have been lost.

³ Bendigo Bank 1999 Annual Report.

The RTC Programme was established to provide basic transaction services to communities which either lost these services or never had access to them in the first instance. Types of services include:

- Financial 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

The primary objective of the programme is to enhance or complement existing or planned commercial/government transaction services in rural towns, with services aggregated in single centres wherever possible (ie; 'one stop shop').

The RTC Programme can fund, in co-operation with Australia Post, the installation of Australia Post's Electronic Point of Sale in some Licensed Post Offices. This initiative gives residents of small rural and remote communities (with populations less than 3,000) access to the giroPost on-line banking and on-line bill pay services.

To date, 26 South Australian Communities have accessed grant funding from the programme, and five South Australian communities have operational RTCs: Elliston, Port Broughton, Port Macdonnell, Wudinna and Yacka.

There are two RTC field officers in South Australia who are available to assist communities with all stages of the planning, establishment and ongoing development of RTCs. Field officers can assist with business-planning. Communities are strongly encouraged to have a field officer assist with this process.

Service SA

On 17 August 2000 an initiative designed to prepare South Australia for the Information Economy was released. Titled *Information Economy 2002: Delivering the Future (IE2002)* the initiative sought to establish a deeper understanding and adoption of the Global Information Economy among all South Australians. IE2002 involved 21 initiatives. One initiative was Service SA, which proposed to create 'one stop shop' channels between the community and Government for all Government Services.

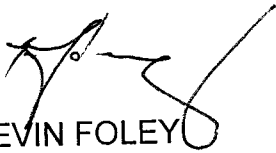
Service SA aims to provide a common entry point and first line of service delivery for South Australians wanting to conduct financial transactions with Government, access Government-related information and find where to go for specialised services.

Service SA also provides full support to eligible communities in developing funding applications to the Commonwealth RTC Programme.

Service SA is working towards a formal cooperative arrangement with the Commonwealth RTC Programme and is near finalising a Statement of Intent which outlines the principles of this cooperation. Service SA already works closely with the two RTC field officers located in South Australia.

I trust this information will prove useful to the Committee in the undertaking of its inquiry. If you have any queries in regard to the contents of this letter, please contact Mr Robert Munchenberg at the Office of Economic Development on telephone (08) 8303 2454.

Yours sincerely



KEVIN FOLEY
Acting Premier

18/12/2002