Brotherhood of St Laurence
Working for an Australia free of poverty

Submission to Senate Economics Committee Inquiry into Aspects of Bank Mergers

Brotherhood of St Laurence
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Background to the Brotherhood of St Laurence's interest in the Inquiry

The Brotherhood of St Laurence is an independent non-government organisation with strong community links that has been working to reduce poverty in Australia since the 1930s. Based in Melbourne, but with a national profile, the Brotherhood continues to fight for an Australia free of poverty, guided by principles of advocacy, innovation and sustainability. Our work includes direct service provision to people in need, the development of social enterprises to address inequality, research to better understand the causes and effects of poverty in Australia, and the development of policy solutions at both national and local levels.

As part of our wider efforts to promote social inclusion, the Brotherhood is committed to developing and demonstrating effective financial literacy and asset building programs for disadvantaged people to address financial exclusion. Financial exclusion is defined as a lack of access by certain consumers to appropriate low-cost, fair and safe financial products and services from mainstream providers (Chant Link & Associates 2004).

Financial inclusion contributes to the Brotherhood's vision of 'an Australia free of poverty' in many ways:

- People on a low income need access to appropriate financial services to help smooth consumption.
- People on a low income need access to appropriate financial services to address asset-based poverty in Australia.
- Access to Australia's mainstream banking sector and economy promotes social inclusion.

The Brotherhood welcomes the Senate Economics Committee's interest in the implications of the increasing number of mergers among Australian banks and the establishment of the Inquiry into Aspects of Bank Mergers (the Inquiry). There are some important issues to consider in relation to people on low incomes as bank mergers create the potential to exacerbate financial exclusion through reduced choice in banking products and services which may result in higher fees, interest rates and charges and changes to terms and conditions. Our submission addresses the aspects of the inquiry relevant to people on low incomes (items a, b, c d and h).

Inquiry into aspects of bank mergers

a) Economic, social and employment impacts of the recent mergers among Australian banks

Anecdotal evidence from low-income clients of the Brotherhood demonstrates that many feel excluded from mainstream markets for financial services. The Brotherhood's experience is that most low-income people are aware that it is difficult to access mainstream financial services and many have given up trying, anticipating rejection, as the following comments illustrate:

> *I wouldn't get one anyway, love, like I said to you before I don't work, I'm on pension and, no, I've never had other loans.*
>
> *Banks are very, very dominant over you. You feel very intimidated … You feel as though you shouldn't be in there. You're in this ivory tower, you shouldn't go near it.*

Previous mergers have been associated with branch closures which can disadvantage people on low incomes, as they often prefer to conduct their banking in-branch. This preference is partly due to limited access to other modes of banking, in particular online banking which requires a secure computer and internet connection.

While we note the Treasurer's conditions for the approval of recent bank mergers include the maintenance of branch and ATM numbers (such as the Westpac–St George merger), it is unclear how these will be monitored and enforced. In relation to the recent acquisition of Bank West by the Commonwealth Bank of Australia, a similar condition was made only in respect of Western Australian branches, meaning that many branches elsewhere are likely to close.

b) Measures available to enforce conditions placed on bank mergers

The Brotherhood notes that the Treasurer placed conditions on his approval to the Westpac–St George merger which requires the merged entity to 'continue to provide a comprehensive range of affordable banking products to low-income consumers and other members of the community with special needs' and 'work with consumer advocates and community stakeholders to minimise community concerns about the merger and its impact on consumers and the community, and address any concerns as sensitively and quickly as possible' (Swan 2008).

The Brotherhood supports the inclusion of these specific conditions and would like to see them adopted for all future mergers in the financial services sector. The Brotherhood is concerned, however, about the lack of any appropriate monitoring and enforcement of these conditions. The Brotherhood would be particularly interested to work with the government on the definition and enforcement of these conditions.

c) Capacity for the Australian Competition and Consumer Commission to enforce divestiture in the banking sector if it finds insufficient competition

As indicated above, for people on low incomes, ongoing access to branches is an important component of competition in the banking sector. In this respect, enforcement of divestiture due to insufficient competition would need to require branches to remain open, or that any branches that were closed after the merger be reopened. The Brotherhood is concerned that these conditions may be difficult to enforce.

d) Adequacy of the *Trade Practices Act 1974* in preventing further concentration of the Australian banking sector

The Brotherhood believes that assessments of competition in the banking sector undertaken by the Australian Competition and Consumer Commission (the ACCC) pursuant to the *Trade Practices Act 1974* (Cth) (TPA) is inadequate, as it does not demonstrate the very limited levels of competition to service people on low incomes. We are concerned that the ACCC's assessment only segments the market into 'retail banking' and 'business banking', without specifically considering low-income or disadvantaged consumers, to understand how the banks are actually competing.

The lack of competition for the provision of banking services for people on low incomes was recently demonstrated in the external review of the Progress Loans program which the Brotherhood runs jointly with the ANZ Bank (Vawser & Associates, forthcoming). The Progress Loans program has lent between $500 and $3000 to over 380 people with a default rate of only 1%. This default rate is far lower than most banks achieve; however the review found that most Progress Loans customers would not meet the lending criteria set by mainstream credit providers because of very low income levels (100% of the customers were on at least some government income support), a lack of assets or security, and the unemployed status of most. As one borrower said:

> *I just can't walk into a bank and ask the bank to give me a loan for money because I haven't got a job, I've got no assets behind me or anything like that.*

The Brotherhood believes that section 50 of the TPA needs to allow for further market segmentation to ensure that there is a comprehensive analysis of how competition in the banking market is benefiting different types of customers, particularly low-income and disadvantaged groups.

The Brotherhood also agrees that further consideration should be given to a ‘public benefit’ assessment of mergers. We note, however, other sections of the TPA that require such an assessment have primarily considered economic benefits and have not adequately considered social benefits as part of the analysis (Consumer Action Law Centre 2007). Any ‘public benefit’ analysis of mergers must consider all the costs and benefits of a merger, including how they relate to people on a low income and other disadvantaged people.

h) Alternative approaches to assessing future mergers, with a focus on alternative approaches to measuring competition

The Brotherhood believes that the Inquiry needs to consider introducing indicators to define and measure competition in the provision of financial services for people on low incomes. Any indicators adopted would need to be applied across the industry; and there would need to be a reporting and monitoring schedule to assess how competition is serving people on low incomes.

These indicators should build on the conditions attached to the Westpac–St George merger and could include:

- numbers and percentage of consumers using basic bank accounts
- the availability of fair, appropriate credit for people on low incomes.

Policy options to address financial exclusion

Voluntary corporate responsibility and competition have not proved adequate to bring about appropriate access to mainstream financial services for all Australians. Experience from other countries and industries may assist in developing policy responses to improve access to mainstream financial services for low-income consumers in Australia. Where intervention in other countries has been successful, the government has taken a leadership role and created the expectation that financial institutions have a responsibility to service all citizens.

- **Monitoring and accountability**: In the UK and USA, governments have taken steps to monitor the performance of banks in addressing financial exclusion. For example, the UK Treasury has established objectives which are measurable over a five-year period, including a goal that affordable credit, saving accounts and simple insurance products should be available to all who need them. Another example is the *Community Reinvestment Act* in the USA, which is intended to encourage banks and credit cooperatives to help meet the credit needs of the communities in which they operate, including low-income neighbourhoods. Under the Act, financial institutions are rated on their performance and these ratings can affect applications for mergers; engaging in extended financial activities, such as insurance; or opening and closing branches (Wilson forthcoming).
- **Reputation**: In the USA and UK, government expectations that financial institutions will service all citizens impact on banks’ reputations. Ratings have become an important part of a bank’s public image and in the USA many banks issue media releases if they receive a favourable Community Reinvestment Act rating (Wilson forthcoming).
- **Tax incentives**: Organisations that contribute to financial exclusion may be rewarded with tax incentives. For instance, in the UK the Community Investment Tax Relief scheme offers tax relief to organisations that invest in community development finance institutions (similar to credit unions). The tax relief is 5% of the amount invested every year for 5 years, so that the total tax relief amounts to 25% of the amount invested (Wilson forthcoming).

- **Community service obligation**: Policy makers realise there is often an inconsistency between profits and social policy or basic human rights. There are many examples in Australia of legislation which ensures companies service all consumers through universal service obligations. For example, some privatised telecommunications, water, gas and electricity companies are not allowed to deny access to unprofitable rural or low-income consumers. In a similar way, there may be a case for regulation for banks to provide basic services to all Australians, as true participation in a modern consumerist society requires access to financial services.
- **Funding**: Governments can provide funding to develop financial inclusion programs. In Australia, the No Interest Loans Scheme (NILS) has been the primary vehicle for governments to address financial exclusion. The Victorian Government has invested $4.7 million over four years and the Western Australian Government provided start-up funding for state wide delivery. The UK Department for Work and Pensions administers a £36 million Growth Fund for the creation of community development finance institutions. Governments in the US and UK have also provided significant funding for matched savings programs: in the US, around $225 million for Individual Development Accounts, and in the UK, funding for the national Saving Gateway matched savings scheme.

The Brotherhood would welcome the opportunity to provide further details and looks forward to the outcome of the Inquiry.

References

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