
CHAPTER 3 – INSTITUTIONAL ALTERNATIVES

3.1 In seeking alternative means of providing banking and like services in regional and remote Australia to those currently delivered through the traditional bank branch network, the Committee examined a wide range of alternatives.

3.2 While all of the alternatives incorporated electronic components, some were predominantly electronic in nature. These include ATMs, telephone banking, internet banking and smart cards. The extent to which these alternatives currently and potentially contribute to solving the problems relating to the withdrawal of traditional bank branches and the role they are likely to play in the future delivery of financial services is discussed in detail in the next chapter.

3.3 Other alternatives include credit unions, building societies, community banks, giroPost, franchise arrangements, third party agencies and electronic agencies. Providers include traditional financial institutions and non-traditional entrants such as the Pharmacy Guild and supermarkets. These alternatives all offer, in varying degree, some form of face to face service delivery.

3.4 Despite the problems that have been experienced by communities as a result of changes in the delivery of banking services, there is a widespread acceptance that change is inevitable and an expectation that the delivery of financial services will be increasingly electronically based.

3.5 Although there are clear indications that communities have embraced electronic delivery channels where these are available, there is also a strong sense that they are welcomed as an additional service rather than an alternative service to those provided by a traditional branch. Most communities prefer and many individuals still need to have access to ‘face to face banking as delivered by the branch network’.¹

3.6 The Committee considers that alternatives which are purely electronic are not at this stage, and may never be, an adequate substitute for face to face banking services. Accordingly, in assessing the role different alternatives may play in maintaining reasonable financial services in regional and remote Australia, it rates highly the degree to which they preserve the face to face mode of delivery.

3.7 The alternatives examined in this chapter include stand alone services such as credit unions, building societies and community banks and services which operate in conjunction with other businesses or organisations under agency or franchise arrangements including giroPost, third party agencies or in-store branches and electronic agencies.

Credit Unions

3.8 One of the most successful institutional alternatives has been the establishment of credit unions. In the last three years, credit unions have set up 45

1 Submission no 22, vol 1, p 122 (NFF).

branches and agencies in country towns in NSW, Qld, Victoria and Western Australia.² Much of the success of the credit union model can be attributed to the Commonwealth's CreditCare program, the willingness of credit unions to establish branches in regional and remote communities and to the high level of local government and community support.

Willingness of credit unions to establish branches in regional and remote communities

3.9 Although the total number of credit unions in recent years has declined (primarily due to mergers), there has been a steady increase in their membership and a growth in assets and loans.³ There are now 237 credit unions with a collective membership of approximately 3.5 million members. Satisfaction of members is reported to be high.⁴

3.10 The preparedness of credit unions to restore financial services in some communities who have lost their banks stems in part from a philosophical disposition that includes a strong commitment 'to meeting the financial needs of all Australians'⁵. Many credit unions, moreover, have their origins in regional and rural areas.⁶

3.11 Credit Unions are not immune from the competitive pressures to reduce costs that face banks. The decision to open a branch is based on commercial feasibility. Unlike banks, however, credit unions do not have to answer to external shareholders. According to the Credit Union Services Corporation Australia Limited (CUSCAL), this enables them when assessing the commercial feasibility of extending their services to particular regional and remote communities to accept a lower profitability than may the banks.⁷ In some situations, credit unions may be content simply not to make a loss. As described by CUSCAL in evidence before the Committee:

We measure profitability differently from the banks. Most of the credit unions in small rural towns that we deal with want to break even. That is, they are happy to stay in that town if they have a revenue neutral situation because they have a commitment, through their cooperative nature, to service as many people as possible.⁸

Evidence given to the Committee by CreditCare and the Queensland Electricity Credit Union confirms that this is indeed the case.

Sure, we want it to be profitable in its own right but ... as long as it is not costing us money and as long as it breaks even, we will be happy - we are

2 Submission no 145, vol 6, p 1187 (CUSCAL).

3 Submission no 51, vol 2, p 400 (CUSCAL).

4 *Transcript of evidence*, Canberra, 12 March 1998, p 157 (Mr Taylor).

5 *ibid.* p 156.

6 Submission no 51, vol 2, p 398, (CUSCAL).

7 *Transcript of evidence*, Canberra, 12 March 1998, p 156 (Mr Taylor).

8 *Transcript of evidence*, Canberra, 12 March 1998, p 161 (Mr Taylor).

covering our costs; it does not necessarily have to make a profit contribution.⁹

CreditCare

3.12 CreditCare is a national cooperative project between the Commonwealth government, the New South Wales Government and CUSCAL to assist people in regional and remote communities to secure convenient access to basic financial services.¹⁰

3.13 It was established in 1995 as a pilot project involving a consortium of Commonwealth Departments¹¹ and CUSCAL. The Commonwealth Government contributed \$1.6 million for an initial period of two years. CUSCAL contributed \$500 000. In July 1996 the NSW government contributed \$205 000.¹² Following the success of the pilot, the project received a further \$2.8 million¹³ in the 1997 budget to extend its operations for a further three years.¹⁴ The NSW Government has also increased its funding to \$345 000, principally to enable CreditCare to explore ways of assisting small business in rural communities.¹⁵ The funding is spent on salaries and support for field officers who are working with communities to re-establish financial services.¹⁶

3.14 The CreditCare project neither directly funds nor subsidises the establishment of credit unions. Rather it provides funds to assist communities to work through a process aimed at re-establishing financial services in the community. The process typically involves field officers 'working with local communities to assess their capacity to support a viable financial facility, by organising community meetings, conducting surveys and developing business plans. The business plans are used to attract financial institutions to the communities'.¹⁷ CreditCare both takes the initiative of contacting communities who appear to be disadvantaged by the lack of access to basic financial services and responds to requests for services.¹⁸ Although the work of CreditCare has mainly led to the establishment of credit unions, its operation is not restricted to credit unions.¹⁹

9 *Transcript of evidence*, Herberton, 28 July 1998, p 756 (Mr Watson).

10 Submission no 51, vol 2, p 402 (CUSCAL).

11 The Department of Social Security, the then Departments of Employment, Education and Training and the then Department of Housing and Regional Development and the Department of Primary Industries, Submission no 51, vol 2, p 402 (CUSCAL).

12 Submission no 51, vol 2, p 402 (CUSCAL).

13 The figure given from DPIE is \$2.4 million, Submission no 61, vol 2, p 477 (DPIE).

14 Submission no 61, vol 2, p 477 (DPIE).

15 *Transcript of evidence*, Sydney, 19 February 1998, p 121 (Mr Drake).

16 Submission no 51, vol 2, p 403 (CUSCAL).

17 Submission no 131, vol 6, p 1117 (CUSCAL).

18 Submission no 51, vol 2, p 403 (CUSCAL).

19 At least two non credit union financial institutions have successfully opened branches in regional areas with assistance from CreditCare.

3.15 Although CreditCare operates across Australia and all local governments have received information about it, most of its activity to date has been concentrated in NSW, Queensland and Victoria.²⁰ The reasons for this principally relate to the different histories and presence credit unions have occupied in different States and Territories.

3.16 Having assisted 45 communities gain access to financial services²¹, CreditCare clearly makes an important contribution to the re-establishment of financial services in regional and remote Australia. Although credit unions were involved in restoring facilities to regional and remote areas before CreditCare came into operation, CUSCAL suggested to the Committee that '20 percent of what we have achieved would have been achieved without the efforts of CreditCare'.²² The Committee commends its work and strongly supports its continued funding .

Local government and community support

3.17 Local governments play an important role in assisting communities attract the services of credit unions. The form of support varies but can include making contact with CreditCare, organising meetings and providing premises for credit unions. For instance, in Parabadoo in Western Australia, the shire council is providing rent-free office space to United Credit Union for up to two years.²³

3.18 Community support is another fundamental requirement for successfully establishing a credit union after the closure of a bank. Credit unions must be commercially viable which is dependent on the level of business that the community is prepared to transfer. In describing the successful efforts of Delegate, a community of 400 people, to attract a credit union, CreditCare commented '[it] comes back to the communities themselves – the capacity for them to get on their feet, fight for their rights and help themselves'.²⁴ As suggested by CUSCAL, a task for governments may be to assist communities regain access to financial services by empowering them to act together in their own interests. Clearly, the objective of CreditCare is closely linked to this task.

Capacity of Credit Unions to fill the gap left by the banks

3.19 Although credit unions have had considerable success in restoring access to financial services to a number of communities, there are a number of factors that affect their capacity to 'replace' banks. Significant amongst these is the ability of credit unions to compete with banks. Credit unions have argued that in order to establish and sustain operations in areas that have been vacated by the banks, they

20 Of the 39 communities that had (at July 1998) received access to financial services as a result of assistance from CreditCare, 17 of these were in Queensland, 17 in New South Wales, 4 in Victoria and 1 in Western Australia. Submission no 127, vol 6, pp 1061-1062.(DPIE)

21 Submission no 145, vol 6, p1187 (CUSCAL).

22 *Transcript of evidence*, Canberra, 12 March 1998, p 167 (Mr Genovese).

23 Submission no 51, vol 2, p 402 (CUSCAL).

24 *Transcript of evidence*, Canberra, 12 March 1998, pp 161-162 (Mr Genovese).

need to be able to convince the community to transfer its business to the credit union. To do this properly, they need to be able to offer the full range of services offered by the banks.²⁵ A number of recent reforms have targeted this issue.

The Wallis Reforms

3.20 The Wallis Inquiry found that the existing regulatory structure that included separate arrangements for banks, building societies and credit unions had ‘failed to deliver uniformity, cost efficiency or regulatory neutrality either across industries supervised or with competitors in the wider financial system’. It concluded that ‘building societies and credit unions have been innovative in the provision of financial services and are capable of increasing market contestability and providing greater choice’ but that the current scheme did ‘not lend itself to this role in the future’.²⁶ The Wallis Report recommended that a single prudential regulator be formed for the entire financial system.

3.21 The legislation to implement the Wallis Reforms was passed in the Commonwealth Parliament in June 1998. It provided for the establishment of a new regulatory structure for banks and other deposit taking institutions, insurance companies and superannuation funds. The Australian Prudential Regulation Authority (APRA) came into operation on 1 July 1998. The legislation also provided for a new regulator for corporate affairs and consumer protection in the financial sector, the Australian Securities and Investments Commission (ASIC). This started operations on 1 July 1998.

3.22 Further legislation is required to deal with the transfer from State and Territory Governments to the Commonwealth of regulatory responsibility for credit unions, building societies and friendly societies. Although all State and Territory governments have agreed to the transfer of responsibility for credit unions to the Commonwealth, a number of steps need to be taken before the transfer takes effect. These are:

- a Heads of Agreement between the Commonwealth and the States and Territories covering the process for transfer of responsibilities and a timetable
- transfer of FI Scheme to the Commonwealth agencies APRA and ASIC
- further Commonwealth legislation to accommodate the transfer of corporate regulation of credit unions and building societies
- transfer of regulation
- State legislation repealing the FI Scheme.²⁷

25 *Transcript of evidence*, Canberra, 12 March 1998, p 160 (Mr Genovese).

26 Australia. Financial System Inquiry 1997. *Financial System Inquiry Final Report* (Wallis Report) p 307.

27 Submission no 131, vol 6, p1115 (CUSCAL).

3.23 The transfer of credit unions to the new regime is scheduled to take place on 1 July 1999. The Heads of Agreement has yet to be signed. According to CUSCAL, the delays have significant commercial consequences for credit unions. The Committee appreciates CUSCAL's concern that the momentum for reforms is not lost²⁸ and urges Federal, State and Territory Governments to give high priority to completing the steps necessary for the transfer of credit unions and other Financial Institutions Scheme bodies to the Commonwealth.

3.24 **Recommendation (4)**

The Committee recommends that Federal, State and Territory governments give high priority to concluding a Heads of Agreement covering transfer issues and to enacting the legislation necessary for the transfer of credit unions and other Financial Institutions Scheme bodies to the Commonwealth.

3.25 The new legislation will remove restrictions that affect the ability of credit unions to compete on an equal footing with banks. This includes the removal of a limit of commercial lending of no more than 10 per cent of assets.²⁹ This restriction has significantly hampered the capacity of credit unions to offer substantial loans to farmers and rural businesses. According to CUSCAL the banks have been able to keep the best of the market by offering incentives to farmers to stay with them.

We are finding that, with the legislative problems that we have as well, we cannot offer a competitive product to those farmers. So we are going in there and getting the mum and dad banking, the business that the banks do not want - the \$1000 in a savings account, the cheque account, the ATM card, the small personal loans or whatever they might have. We are trying to provide those sorts of services with a similar type of service level without getting the big licks of business that we need to make the thing commercially sustainable in the long term.³⁰

3.26 The removal of this restriction will provide an incentive for credit unions to build expertise in business lending and pursue it. It has the potential to considerably enhance the viability of credit unions through broadening their client base. This may attract more credit unions to regional and remote Australia. However, it does not mean that every credit union will immediately be in a position to offer substantial commercial loans. Credit unions will need to acquire both the expertise and the capacity to do so. Their alliance with PIBA may be useful in gaining both.³¹

3.27 The changes will also have an impact on how credit unions are perceived in the community. Notwithstanding that prudential standards imposed by the Australian Financial Institutions Commission (AFIC) on credit unions are in some respects more

28 Submission no 131, vol 6, p 1116. (CUSCAL).

29 *ibid.* p 1115.

30 *Transcript of evidence*, Canberra, 12 March 1998, p 160 (Mr Genovese).

31 A number of credit unions in rural areas have entered into an alliance with PIBA. The arrangement enables credit unions to offer retail services to new and existing customers of PIBA, including overdraft facilities. PIBA is able to offer large scale rural lending to clients of the credit unions. Submission no 51, vol 2, p 407 (CUSCAL).

stringent than those imposed by the RBA on banks³², credit unions consider that they are not always perceived to be as safe as banks. The changes may therefore serve to correct any misunderstanding the community has about the comparative safety of banks and credit unions.

We have a regulatory system which most in the community are totally unfamiliar with.

By contrast banks currently have a privileged place in our regulatory system. They are regulated by the Reserve Bank, and so people think they are special. People think they are safer than credit unions, despite what the informed may understand. So, despite the users of credit unions being extremely satisfied with the services they are provided-and we see this in many surveys that we do and in independent surveys-some people choose to stay with other institutions regardless of their level of satisfaction with them.³³

3.28 In an address to the Australian Institute of Credit Union Directors in Canberra on 28 August 1998, the CEO for APRA, Mr Graeme Thompson, pointed out that this change would give credit unions the opportunity to market their safety and soundness as comparable to that of the other deposit-takers in the regime.

3.29 In its submission to the Inquiry, CUSCAL expressed the view that the impact of the Wallis reforms would be enhanced by a public education campaign to explain the role of APRA.³⁴ The Committee considers that this would be worthwhile and encourages CUSCAL and APRA to discuss the matter with a view to establishing such a program.

3.30 Other legislative reforms will also serve to enhance the ability of credit unions to offer a full range of services and thereby to compete effectively with the banks. In July 1998 the government passed legislation to amend the Cheques and Payment Orders Act 1986 to allow building societies, credit unions and their industry special service providers to issue cheques in their own right. The reforms took effect from 1 December 1998.³⁵ According to CUSCAL the ability to issue their own cheques will enable credit unions to 'substantially reduce the costs of providing cheques to their members.'³⁶

Other legislative impediments

3.31 In its submission to the inquiry, CUSCAL identified three other matters that affect the capacity of credit unions to deliver banking services in regional Australia. It argues the case for the:

32 Australia. Financial System Inquiry 1997. *Financial System Inquiry Final Report* (Wallis Report) p 306.

33 *Transcript of evidence*, Canberra, 12 March 1998, p 157 (Mr Taylor).

34 Submission no 51, vol 2, p 413 (CUSCAL).

35 Submission no 131, vol 6, p 1116 (CUSCAL).

36 *Transcript of evidence*, Canberra, 12 March 1998, p 168 (Mr Genovese).

- provision of exemption from stamp duty on transfers of home loans in order to remove a disincentive to refinancing and to increase competition
- ending of commercial practices favouring or mandating the use of bank cheques in property settlements
- removal of debit taxes paid by local governments on transactions through non-bank institutions.

3.32 The Committee notes that that under the government's tax reforms, both debit taxes and stamp duties on mortgages will be repealed from 1 July 2001.

3.33 Credit unions and other special service providers won legislative approval to issue cheques in their own name from 1 December 1998.³⁷ Any rules governing bank cheques in relation to property settlements that distinguish between banks and other deposit taking institutions are clearly anachronistic and should be resolved without delay by the Australian Payments Clearing Association.

3.34 **Recommendation (5)**

The Committee recommends that the Australian Payments Clearing Association ensure that commercial practices governing property settlements do not continue favouring or mandating bank cheques.

Impact of GST 'input taxing'

3.35 CUSCAL is concerned that the capacity of credit unions to provide services in regional Australia will be threatened by the government's GST 'input taxing' proposal. According to this proposal, financial services are required to pay GST on inputs but, unlike all other services with the exception of residential rents, are not able to deduct the cost of this tax from GST collected from their customers.

3.36 CUSCAL engaged PricewaterhouseCoopers to undertake modelling work on the potential costs for credit unions of the GST proposal. It found that a GST is likely to be 3 to 4 times more costly than the cost of taxes to be removed under the tax reforms proposals. and estimated that the additional cost of a GST across the credit union industry would be approximately \$40 million. CUSCAL claims that 'the cost to credit unions would represent a third of the total surplus for the credit union industry in 1997-98 and would lead to a 5 per cent increase in credit unions' non-interest expenses'.³⁸

3.37 CUSCAL argues that credit unions will incur a disproportionately higher increase in their input costs than their major competitors, the banks. The GST is only added when the input is provided from another tax paying entity. Because of their smaller size, credit unions have traditionally sourced many of their supplies from or through co-operative service organisations. Banks, on the other hand, are able to provide many of these services in house.

37 Submission no 139, vol 6, p 1169 CUSCAL).

38 Submission no 145, vol 6, p 1191 (CUSCAL).

3.38 According to CUSCAL, the additional tax impost will result in credit unions either having to increase their prices or to withdraw from less profitable activities such as services to regional and remote communities.

3.39 The Committee notes that in September 1998, the Treasurer advised CUSCAL that the government was willing to consult with the Credit Union Movement.³⁹

Removal of restrictions on local government using credit unions

3.40 In 1997, the Commonwealth, Queensland, NSW, WA, SA, NT and the ACT amended legislation to remove restrictions that prevented governments, semi-government bodies and local governments from using credit unions or building societies for some of their business transactions. In December 1997 the Victorian Government gave approval for local councils to make deposits in credit unions. However, according to CUSCAL, the Minister later made it clear that ‘this was the only service they could obtain from credit unions’.⁴⁰

3.41 In the Committee’s view, the decision by the Victorian government to restrict the use that local governments can make of credit unions is contrary to the reform processes flowing out of the Wallis inquiry. The Committee acknowledges that not all credit unions will be able to or wish to deal with a local government account. However, they should not be prohibited from doing so by legislation. The Committee considers governments should support the efforts of credit unions to restore financial services to areas that have been deserted by the banks by ensuring legislation and policy is consistent with this objective.

3.42 Recommendation (6)

The Committee recommends that the Victorian government amend its legislation relating to the use of credit unions by local governments to bring it in line with the other States and Territories.

In the course of this inquiry CUSCAL alerted the Committee to comments made to the media by a spokesperson from the Victorian Minister for Local Government.

“We do not want councils to tie up their funds and direct services to credit unions because banks offer a wider set of services,” the spokesperson said. “We are quite adamant we don’t want councils using credit unions as their primary transaction banker”. The spokesperson said the Government was concerned that if restrictions were eased, councils might become exposed to financial events similar to the Pyramid Building Society collapse in the late 1980s.⁴¹

3.43 The Committee shares CUSCAL’s concerns that such comments may unfairly undermine community confidence in credit unions.

39 Submission no 145, vol 6, p 1190 (CUSCAL).

40 Submission no 131, vol 6, p 1116 (CUSCAL).

41 *ibid.* p 1116.

Limits to capacity

3.44 The implementation of the Wallis reforms and other measures discussed above will improve the capacity of credit unions to establish credit unions in regional and remote areas. However, their capacity to replace bank branches is limited. As CUSCAL explained:

The difficulty is that the credit unions generally do not have the capacity to take up the slack that is there from bank closures. We have credit unions that have strong bonds of association, like Qantas, Commonwealth and what have you. They are not in the business of opening branches in rural towns. Historically, credit unions have not had a strong presence in rural Australia. It is a completely new market to the movement. So, if you like, it is very difficult for us to convince more than we have to go out into a new market, considering the environment they are working in at the moment with squeeze margins, et cetera.⁴²

3.45 CUSCAL reported to the Committee that it aimed to establish 12 credit union branches a year.⁴³ The changes outlined above may enable this number to be increased to 20.⁴⁴ Given these estimates, the Committee considers that the establishment of credit unions is only a partial solution to the problems caused by the withdrawal of banks. CUSCAL itself acknowledges that credit unions will not be able to provide a total solution, and that 'ultimately there will be some areas in which it will not be feasible for a single institution to establish adequate banking facilities'.⁴⁵

3.46 If credit unions are to significantly expand in regional and remote areas, two issues need to be addressed. The first involves finding ways of attracting more credit unions to rural areas. The second involves finding ways of restoring financial services in areas where it is not feasible for a single institution to establish adequate banking facilities. Through the combined efforts of CreditCare, communities and some governments, a variety of approaches are evolving that have the potential to significantly increase the number of country towns that will be able to secure financial services. The developments have in common an aggregated service delivery approach to providing services.

Aggregated service delivery

3.47 The aggregated service delivery model is based on a partnership between a financial institution and one or more government agencies or private businesses. A prime example of this approach is the arrangement between the Queensland Electricity Credit Union and the Queensland Government Agents Program in Herberton, Queensland. The Committee visited the Electricity Credit Union's operation in Herberton and met with key players in its development. The story of its establishment outlines the steps involved in such an undertaking. It also illustrates

42 *Transcript of evidence*, Canberra, 12 March 1998, p 165 (Mr Genovese).

43 *ibid.* p 167.

44 *ibid.* p 173.

45 *Transcript of evidence*, Canberra, 12 March 1998, p 157 (Mr Taylor).

how much can be achieved when there is cooperation between all levels of government and private organisations.

3.48 Herberton is a small town in the Atherton tablelands. Its population, including those in outlying areas, is approximately 1500. In October 1996, its only bank, the ANZ, advised the Council that the Bank would be closing its branch in the first week of December. In response to this news, the Mayor of Herberton immediately contacted CreditCare with a view to establishing an alternative facility. CreditCare acted swiftly and had an officer in the town within a week. Its first step was to organise a meeting and convince the council of its ability to deliver a range of services. It then conducted a survey to identify the level of support the community was prepared to give it in terms of transferring business to the credit union.

3.49 The principal challenge facing credit unions that move into areas from which the banks have departed, presumably because of insufficient profit, is to find ways of being commercially viable. For this reason, the Electricity Credit Union decided it could only consider requests to establish branches in such areas where they could find a shared operator and rent free premises.

3.50 Knowing these conditions, CreditCare set about looking for suitable premises. It located a refurbished building in the main street used by the Queensland Government Agents Program to provide government services and information one day per week.⁴⁶ Approaches were made to the Office of Rural Communities and the Department of Premier and Cabinet who supported the concept of shared premises. The Department of Public Works and Housing who operated the site on a franchise basis agreed to allow the credit union to move in on a rent free basis.

3.51 The Electricity Credit Union opened in Herberton on 2 December 1996, four days prior to the bank closing. It was supported by nearly all businesses, schools and clubs in the town and became quite cost effective in a short time. It employs two people, one on a full time basis.

3.52 The Committee was impressed by what it saw and heard in Herberton and, in particular, by the cooperation between the different organisations involved in the arrangements. Herberton's achievement is the result of considerable efforts of many individuals and organisations. Its success may be attributed to the willingness of all organisations approached to find a solution, their recognition of the potential value in the concept of aggregated services and the support of the community in transferring their business to the credit union.

3.53 Another factor that contributed to the success at Herberton is that the arrangements were custom made to address the needs and resources of the particular community. The circumstances of different communities vary and it likely that a variety of approaches is required. It is therefore vital that any approach taken has the flexibility to allow solutions to be shaped to the particular concerns and circumstances

46 The Queensland Government Agent Program was established by the State Government in 1992 to deliver a range of government services and information on a face to face basis in rural communities. It operates a network of one-stop shops on a franchise basis. Transcript of evidence, Herberton, 28 July 1998, p 741 (Mr Arber).

of individual communities. Aware that one solution will not fit all, CreditCare continues to develop a variety of approaches.⁴⁷

3.54 In November 1997, the Electricity Credit Union opened a branch in Dirranbandi, a community with a population of around 500. Under a commercial agreement with Queensland's Office of Rural Communities, the branch provides a range of government services including motor vehicle registration, public housing, rent collection and applications to register births, deaths and marriages.⁴⁸ In return for providing these services, the Office of Rural Communities effectively pays the rent of the premises which increases the viability of the operation. The Office of Rural Communities also provided and installed the electronic equipment necessary for the agency to deliver the government services and trained credit union staff.⁴⁹

3.55 In describing its efforts to deliver services to its customers, the General Manager of the Electricity Credit Union, Mr Clive Skarott, referred to a need 'in some instances' to receive further government assistance. In this context he raised the prospect of the credit union delivering some federal government services on a commercial basis along the lines of its arrangements with QGAP.⁵⁰ The Committee considers that there is merit in exploring this proposal further. There is a natural association between financial services and one stop shops for government services that stems from the similarities in the transactions involved and in the requirements for delivery that supports the suggestion. The Committee considers that Federal and State governments involved in the delivery of services through one-stop shop arrangements collectively examine means by which this can be progressed.

3.56 **Recommendation (7)**

The Committee recommends that the Minister for Regional Services, Territories and Local Government ensures that the Rural Transactions Centres Program builds on State Government initiatives setting up government service centres to deliver financial services to regional areas.

3.57 The Committee is persuaded that the aggregated service delivery model is 'likely to be the best solution for many remote communities'⁵¹. A distinct advantage of the model is that it enhances the viability of all the participating services and thereby increases the likelihood that remote communities will maintain access to these services. As such, it represents a solution to the broader problems facing many smaller regional and remote communities. As CUSCAL described in evidence before the Committee, it is a solution that 'provides communities not only with financial services but also with a range of services which will overcome a number of problems that they face. By directing all those energies into the one location, there is a chance that sustainability will be achieved'.

47 *Transcript of evidence*, Herberton, 28 July 1998, p 762 (Mr Watson).

48 Submission no 51, vol 2, p 406 (CUSCAL).

49 *Transcript of evidence*, Herberton, 28 July 1998, p 743 (Mr Arber).

50 *Transcript of evidence*, Herberton, 28 July 1998, p 748 (Mr Skarott).

51 *Transcript of evidence*, Canberra, 12 March 1998, p 158 (Mr Taylor).

3.58 The credit unions that have established branches in rural communities with the assistance of CreditCare have for the most part had to underwrite the losses that typically occur during the first eighteen months or so of operation. Although many credit unions have demonstrated a willingness to do this, the requirement to do so may have acted as a disincentive to opening a branch for others.

3.59 One solution to this problem would be for the Rural Transaction Centres Program, described later in this chapter, to provide communities with some form of seed funding to enable them to accept responsibility for the losses that generally occur in the first twelve months or so of operation. Under semi-franchise style arrangements, communities would themselves take the responsibility for the salaries and premises. Credit unions would provide their expertise, product and services and remunerate the community for providing transactions but would not have to take the responsibility for underwriting losses.

3.60 Such a model would allow a community to take responsibility for delivering other services as per the aggregated service delivery model described above. In removing some of the financial burden incurred in the establishment phase from credit unions, the approach may result in more credit unions being prepared to establish branches in regional and remote Australia. The other distinct advantage of the model is that it would empower communities through giving them responsibility without requiring them to finance it out of their own pockets.

3.61 Other developments involving an aggregated service delivery approach are described later in this chapter

The Traditional Credit Union

3.62 Most of the credit union developments that came to the attention of the Committee involved the establishment of branches of credit unions already in existence. Two exceptions to this are the Traditional Credit Union in the Northern Territory and the Aboriginal Credit Union in Victoria.

3.63 The Traditional Credit Union was established through the efforts of the Arnhemland Progress Association, a successful retail cooperative that operates across Northern Australia. The Traditional Credit Union was established to provide financial services to members of remote area communities in the Northern Territory, many of which had lost their bank branches.

3.64 In evidence before the Committee, the Traditional Credit Union described the problems that led to its establishment.

Many communities were faced with no financial service and no banking facility and yet the Department of Social Security, in its practice, continually sent out cheques to social security recipients in communities. At times, ALPA found itself responsible for delivering DSS's services by having to provide up to \$100,000 a fortnight in cash so that those cheques could be cashed.

The scenario created difficulties for members of ALPA who did receive social security, including an inability to manage their own funds in that

there was no provision for saving, no provision for budgeting and no facility to utilise a service that is taken for granted in urban areas.⁵²

3.65 The Traditional Credit Union was incorporated by the NT Registrar of Financial Institutions in December 1994. Since its establishment, five branches have opened. The Credit Union was established with funding from ALPA, ATSIC and the NT Department of Education.⁵³ Although the Credit Union initially ran at a loss, there are strong indications that the corner has been turned with profits being recorded in 1998. An EFTPOS facility was introduced into existing branches in 1998. It is envisioned that 16 of the 64 communities will eventually be serviced by branches of the Credit Union. The EFTPOS facility will be expanded to service stores in remote areas that are not big enough to support branches.⁵⁴

3.66 The Committee was impressed by ALPA's initiative in establishing the credit union and with its commitment to developing 'education alongside the delivery of financial services'⁵⁵. It is good example of what can be done to provide remote communities, experiencing many disadvantages, with access to services 'taken for granted in urban areas'.

3.67 In evidence before the Committee, the Director, Mr Mannix, recognised the long-term potential for the Credit Union to have an expanded role and to become 'a financial hub in the community, offering a range of services' including insurance, travel and postal services.⁵⁶ This observation is interesting in the context of the government's Rural Transactions Centres policy. As discussed above, the Committee is persuaded that an aggregated service delivery approach significantly increases the likelihood of communities accessing services. The Rural Transaction Centres Program may provide the Traditional Credit Union with the means to deliver a broader range of services. Such a development would be of benefit to all parties.

3.68 According to Mr Mannix, there has been strong interest across Australia in the development of the Traditional Credit Union. Although the Director realistically acknowledged that the Credit Union was not in a position to be 'carrying the flag for all other parts of Australia'⁵⁷, the Committee considers that it serves as an excellent model for other remote parts of Australia.

3.69 Another credit union for Aboriginal people is to be launched this year⁵⁸. The Credit Union will operate on the 'incubator' principle; that is, a credit union within a credit union. The Melbourne based Advantage Credit Union is acting as the host,

52 *Transcript of evidence*, Darwin, 10 August 1998, p 765 (Mr Mannix).

53 *ibid.* p 766.

54 Submission no 133, vol 6, p 1126 (Traditional Credit Union).

55 *Transcript of evidence*, Darwin, 10 August 1998, p 771 (Mr Mannix).

56 *ibid.* pp 771-772.

57 *ibid.* p 772.

58 Submission no 145, vol 6, p 1137 (CUSCAL).

providing assistance with training and development with a view to guiding the new institution to eventual independence.⁵⁹

3.70 In a further development, the North-western NSW shire councils and an ATSI regional council – the Barwon Darling Alliance – have commissioned work on setting up a new credit union to serve the region. Work on a formal business plan is underway.⁶⁰

Community Banks

3.71 The community bank is a concept devised by the Bendigo Bank, a regionally based bank in Victoria, to provide rural communities with the opportunity to secure full banking services. The concept involves a community purchasing from Bendigo Bank the right to run a franchise style banking branch. In addition to the initial franchise fee, the community takes responsibility for the physical delivery of the services, the premises and the staff. Bendigo Bank provides the capital, the systems, the ongoing support and the development of the business. In return, the Bendigo Bank and the community are each entitled to agreed portions of the revenue raised by the branch.⁶¹

3.72 The first two community banks opened on 26 June 1998 in the neighbouring Victorian towns of Rupanyup and Minyip. The Rupanyup bank opens for three afternoons a week and the Minyip bank for the two afternoons and one morning. Within one month of opening, the bank was able to report to the Committee that more than one in three local people had opened accounts, that business volumes had grown to the point where the combined operation was one-third of the way towards achieving its end-of-year-one-break-even-target and that new business was being added at the rate of between half-a-million and one million dollars per week.⁶² In February 1999, Bendigo Bank advised the Committee that the early pilot sites at Rupanyup and Minyip were close to covering all operating costs, after which they will generate local profit.⁶³

3.73 The Bank also informed the Committee that in addition to the Rupanyup and Minyip branches, it was currently supporting the operation of Community Bank branches in Upwey (outer Melbourne), Lang Lang (South Gippsland), Henty (NSW), Toora (South Gippsland), Avoca (central Victoria), and Wentworth and Coleambally (southern NSW). A branch will be opened in Maldon (central Victoria) in April. The Bank expects 15 branches to be operating by the end of June with perhaps a further six to ten by the end of the year.

59 Submission no 51, vol 2, p 407 (CUSCAL).

60 Submission no 145, vol 6, p 1137 (CUSCAL).

61 *Transcript of evidence*, Warracknabeal, 29 April 1998, p 414 (Mr Hunt).

62 Correspondence to the Committee 24 July 1998.

63 Submission no 155, vol 6, pp 1272-1273 (Bendigo Bank).

3.74 All branches currently opened (with the exception of those which have just opened) are trading ahead of their projected business targets. In total the operating branches have more than 4000 customers and a total business volume which has been growing by more than \$2million a week.

3.75 Interest in the Community Bank concept has been high with more than 200 communities Australia wide having made inquiries. In late 1998, the Western Australian State Government contacted Bendigo Bank and expressed interest in helping the Bank identify potential sites in WA. Twenty one sites were identified. The Bank anticipates that it will successfully establish a number of Community Bank sites in WA by the end of 1999. At least one pilot is to be established in South Australia in the next couple of month. Discussions are also to be held with interested parties in Queensland in April.

3.76 The model has been constructed to be flexible enough to adapt to the different needs of different communities and also with a view that it will change over time. In the short term it will provide communities with basic banking services. In the long term, the branch may become more of a finance and investment shop.

3.77 As implied by its name, the concept of a community bank is based on principles of maximum community involvement. The establishment of a community bank demands a substantial investment from a community, financially and in terms of time and effort. In a private briefing with the Committee, a number of community representatives involved with the establishment of the Minyip and Rupanyup branches described the effort that went into their establishment. The committee was impressed by the commitment of those involved.

3.78 Many witnesses perceived the very act of establishing a community bank as an important step taken by a community to help itself. As explained by one witness, 'Perhaps it [the concept] is not perfect, but at least it is a means of bringing the people together, and we are seeing that happen around these towns...This is one of the things that is very important in the rural sense - to bring the people together and to get them to do something about their future'.⁶⁴

3.79 According to Bendigo Bank, the community bank concept not only satisfies a community's need for over-the-counter transaction services but also addresses broader issues relating to the problem of capital drain. In this model any net profit (after Bendigo Bank receives its share of the revenue) is available to be reinvested back in the community.

The community bank model - and it is just that, a pilot model - is an innovative way to meet the immediate need for daily banking services but it can address the capital drain over time.

Paying a return to the local community for every dollar exported - that is, saved - every dollar imported - that is, borrowed - and having that income

64 *Transcript of evidence, Warracknabeal, 29 April 1998, p 443 (Mr Magrath).*

stay to sustain local service and to sustain ongoing benefit for the community seems to me to be a very positive win - win prospect.⁶⁵

3.80 The Committee heard evidence from a number of different communities that were at various stages of investigating the possibility of establishing a community bank. The opportunity to keep some of the wealth in the community was clearly welcomed and was a key factor in their interest. This factor may also explain why some 'towns which still retain viable commercial banking facilities, are actively examining community banking as a community business to underpin a range of local activities and service delivery'.⁶⁶

3.81 For some communities, however, the initial financial investment required is a serious disincentive to pursuing the concept.

We have looked into other forms of banking at this stage with community banking, but I think it is a huge burden to expect a community to bear. The amount of money that is needed to set up such a bank I believe is out of reach, and it is a huge ask for any banking organisation to put onto a voluntary organisation to bear and to organise.⁶⁷

3.82 A similar concern was expressed by the Finance Sector Union. In evidence before the Committee, it questioned the fairness of remote communities having to underwrite the costs and risks associated with the provision of such services.⁶⁸

3.83 Indications are that these costs are, indeed, substantial. Although the actual franchise fee is under \$50 000⁶⁹, there appear to be considerable additional establishment costs involved. DPIE reported that its discussions with communities suggest the sum a community is required to raise is in the range of \$0.25m to \$0.5m.⁷⁰

3.84 As mentioned earlier, the pressures on the major banks to lower costs apply also to credit unions and community banks. In this context, some witnesses questioned the long term viability of such alternatives. At issue was the increased risk factor present for an institution which relies on the local community for its deposit funding⁷¹ rather than operating across the nation as a whole with a broader mix of business.⁷² The examples given to the Committee drew on the American experience. The Committee notes these concerns and will monitor the operations of community banks through its future reviews of APRA.

3.85 The Committee applauds the courageous and determined efforts that a number of communities have made to find alternative stand-alone banking facilities in

65 *Transcript of evidence*, Warracknabeal, 29 April 1998, p 411 (Mr Hunt).

66 Submission no 61, vol 2, p 482 (DPIE).

67 *Transcript of evidence*, Hamilton, 29 April 1998, p 386 (Mr Noonan).

68 *Transcript of evidence*, Melbourne, 22 April 1998, p 272 (Mr Beck).

69 *Transcript of evidence*, Warracknabeal, 29 April 1998, p 417 (Mr Hunt).

70 Submission no 61, vol 2, p 482 (DPIE).

71 *Transcript of evidence*, Sydney, 18 February 1998, p 32 (Dr Walker).

72 *Transcript of evidence*, Melbourne, 22 April 1998, p 265 (Mr Merritt).

the wake of the withdrawal of the banks. It acknowledges the considerable contribution CreditCare has made and commends also the financial institutions that have been prepared to back communities in their efforts, namely a number of credit unions and Bendigo Bank. As a result of these efforts, 45 communities that had lost their last bank branch have regained access to full face to face transaction services.⁷³ Moreover, these communities have demonstrated a willingness to invest in their own futures and a capacity to respond constructively to the changes and challenges facing rural Australia. In the process, they have strengthened not only the economic viability of their towns, but have also strengthened their vitality.

Franchise banking

3.86 In March 1998, Colonial State Bank announced that it would extend its program of franchising branches to its rural network. Under the Single Site Franchise Program, small rural businesses are given the opportunity to purchase a five year franchise. The businesses provide dedicated floor space which is clearly identified with the Colonial State Bank's brand name and a dedicated staff member while the Bank funds the branch fit out and provides training, merchandising, computers and security.⁷⁴

3.87 In those areas where 'single-site' operations are not viable, smaller agency-dealer franchises will be established. Proprietors will provide limited over-the-counter services such as deposits and withdrawals and the opening and closing of some transaction accounts. Customers with more complex needs will be referred to a larger regional branch.

3.88 By February 1999, 47 single site franchises had been established in rural New South Wales. The Bank is currently in the process of developing a program to extend the program to other country towns both in New South Wales and in other States. It will also use its Colonial life agent network to expand its representation. With the acquisition of Prudential and L&G in 1998, the Bank is now in a position to establish a large agency network throughout Australia. The first full banking service offered through this network opened in Guyra in December 1998.

3.89 According to the Bank, the program will lead to no diminution in the sort of service currently provided.⁷⁵

The service that we currently provide will transfer straight across. Currently, we have a group of small business specialists operating through all the regional areas in Australia where we are positioned. They will remain.⁷⁶

73 Submission no 145, vol 6, p 1137 (CUSCAL).

74 Australian Financial Review. 18 March 1998. *Colonial goes bush with franchises*, p 35.

75 *Transcript of evidence*, Melbourne, 22 April 1998, p 295 (Mr Clements).

76 *ibid.* p 295.

3.90 In announcing what the Bank views as an ‘innovative solution to delivering financial services to many rural and remote communities around Australia’⁷⁷, the Bank has also ‘guaranteed that we will not leave any community that we currently serve without face-to-face banking’.⁷⁸

3.91 Backed by the commitment to leave a face-to face service in every community in which the bank currently has a presence, the arrangements appear to satisfy one of the Committee’s primary concerns, namely that communities retain access to face to face transaction services. However, the Committee notes that this is at some cost to the community. The system relies on local businesses purchasing the franchises. Franchises for single site operations will cost between \$15 000 - \$30 000. At the top end of the range, they cost \$60 000 plus a \$45 000 training fee in the larger metropolitan areas.⁷⁹

3.92 Franchisees are remunerated on the basis of the achievement of key performance indicators.⁸⁰ It is estimated that franchisees will earn an after cost income of between \$25 000 and \$35 000 per annum.⁸¹ With 500 expressions of interest around Australia, it is clear that many businesses interested in purchasing the franchises see it as a commercially viable opportunity despite the costs.

3.93 The Colonial State Bank franchise program is another example of a bank deciding to reconfigure its network as a means of maintaining the delivery of services to regional areas. Like the community bank concept, it requires financial input from its ‘partner’. Unlike the community bank, it takes this input from an individual business rather than a community group.

Agencies

giroPost

3.94 Australia Post has approximately 4481 outlets across Australia, of which 2965 are in rural and remote areas.⁸² Around 75 percent of all outlets are Licensed Post Offices (LPOs), that is, privately owned and operated Post Offices.

3.95 Australia Post has offered agency services for the Commonwealth Bank since 1911. Through these arrangements, Commonwealth Bank facilities are available in 3709 of Australia Post’s outlets.⁸³ Community postal agencies do not offer banking services.⁸⁴ Commonwealth Bank customers are able to access a range of personal

77 Submission no 92, vol 4, p 826 (Colonial State Bank).

78 *Transcript of evidence*, Melbourne, 22 April 1998, p 289 (Mr Morgan).

79 *Transcript of evidence*, Melbourne, 22 April 1998, p 297 (Mr Clements).

80 *ibid.* p 292.

81 ‘Colonial Shops for Bush bank Outlets’, *The Australian*, 19/3/98.

82 Submission no 156, vol 6, p 1275 (Australia Post).

83 Figure supplied by the Commonwealth Bank 12 February 1999.

84 *Transcript of evidence*, Launceston, 23 April 1998, p 356 (Mrs McGrath-Kerr).

banking services including deposits and withdrawals on passbooks, home loan repayments and balance enquiries on passbook accounts.⁸⁵ The Committee commends the Commonwealth Bank for its continued utilisation of the Australia Post network to meet the needs of its customers.

3.96 In 1995 Australia Post significantly expanded its role in delivering financial services through the establishment of an electronic banking network, giroPost. GiroPost is currently available in 2670 outlets. GiroPost offers customers of participating financial institutions access to card-based, PIN authorised banking services including deposits, withdrawals, account balances, acceptance of new account applications and payments for credit card bills.⁸⁶ It offers participating institutions an opportunity to provide national access for their customers. There are currently 11 financial institutions participating including Adelaide Bank, Bank of Melbourne, BankWest, Bendigo Bank, Citibank, Commonwealth Bank, HongkongBank of Australia, Metway Bank, IMB Building Society and Advantage Credit Union.⁸⁷ Customers of the former Advance bank also have access to giroPost and from mid 1999, all St George customers will also have access. The system has grown substantially since its introduction both in terms of access and in the volume of transactions.

3.97 With its extensive network in regional and remote Australia, Australia Post clearly has the potential to play a major role in providing access to financial services in areas affected by the withdrawal of banks. However, there are a number of issues that need to be addressed before it fully realises this potential.

Business banking

3.98 GiroPost offers personal banking services but does not offer business banking. As explained in Chapter 1, the loss of access to business banking is one of the major problems facing communities that lose their last bank branch. GiroPost's restriction to personal transaction services limits its effectiveness as an alternative means of delivering financial services.

3.99 Australia Post claims that the introduction of business banking would require substantial system redevelopment, new cash transfer arrangements and considerable up-skilling of staff. Security and safety issues would also need to be resolved as would the implementation of a timely cheque clearance system. Resolution of these problems would involve a substantial increase in costs. In a later submission, Australia Post acknowledged that the current retail technology could support a business banking service.⁸⁸

3.100 In its original submission to the Committee, Australia Post expressed willingness to consider developing the service provided that banks were prepared to come to a commercial arrangement that would recognise Australia Post's increased

85 Information from Commonwealth Bank 12 February 1999.

86 Submission no 77, vol 3, p 582 (Australia Post).

87 *ibid.* p 582.

88 Submission no 156, vol 6, p 1275 (Australia Post).

costs and levels of risk. At the time, Australia Post indicated that the banks were unwilling to offer what it considers a reasonable transaction fee for such a service. However, the Committee understands that this issue is the subject of continued negotiation between Australia Post and its banking partners. Given the importance of access to business banking services to communities, the Committee encourages all parties to pursue discussions with a view to a speedy resolution of outstanding problems.

3.101 From the submissions and evidence given to the Committee, it appears that the main banking needs of businesses in regional and remote Australia are to have access to cash and a secure place for depositing their takings. The amounts involved in business transactions are typically larger than personal transactions. Some transactions take more time to process but, as acknowledged by Australia Post, differential charge arrangements could be imposed to accommodate this.

I guess the short answer is that prices can vary and we can take a leaf out of the book of the banking community themselves. Some of the agency services they provide other financial institutions vary between, say, \$10 and \$30 a transaction. Certainly, if you ask any of the banks they will tell you that they offer agency services on that sort of basis in country towns or in towns where other banks do not have branches and at those sorts of charges.⁸⁹

3.102 The Post Office Agents Association Limited (POAAL) pointed out that the introduction of business banking would need to be accompanied by satisfactory handling of queuing procedures so that other customers were not disadvantaged by the extra time taken by business transactions.⁹⁰ In the Committee's view, such problems are not insurmountable. Similarly, the Committee considers that additional staff training needs should not be viewed as a serious impediment to the introduction of business banking through giroPost.

3.103 The move to offer business banking has serious security implications. The POAAL expressed strong concern about security issues.

The security risk is certainly very real and we are worried about that. Post Offices are being held up at increasing rates.We can see that, if business banking were part of the deal, the perception....would be that more money is going to be handled. That may not be so, but we believe that that perception would be there. Therefore, greater security measures would have to be put in place. Frankly, we do not want to put our people at risk.⁹¹

3.104 Measures to up-grade security include the installation of secure safes and improved arrangements for remitting cash to and from post offices. The Committee appreciates that the introduction of business banking may exacerbate what is already a

89 *Transcript of evidence*, Melbourne, 22 April 1998, p 225 (Mr Baxter).

90 *Transcript of evidence*, Launceston, 23 April 1998, p 354 (Mrs McGrath-Kerr).

91 *ibid.* p 351.

major problem for Australia Post outlets and expects that Australia Post will examine its security arrangements and ensure that they meet appropriate standards.

3.105 The Committee considers that the addition of basic business banking to giroPost is a critically important step in enhancing the access many regional and remote communities have to the financial services they require. This is particularly the case for towns which have lost access to financial services. Priority should be given to ensuring these areas are provided with access to business banking services through giroPost.

3.106 The Committee considers it appropriate that business banking services are limited to basic transaction services in much the same way that the personal banking services offered by giroPost and the banking services offered to business and personal customers by most third party agency arrangements are limited to basic transactions. Many businesses already have access to other delivery channels such as on-line banking and telephone banking and this access will become more widely available as telecommunications infrastructure improves. The increased uptake of EFTPOS and other technological developments may over time reduce the need businesses have for cash. However, in the Committee's view, businesses will still require reasonable access to cash transactions services in the foreseeable future.

3.107 The Committee recognises that it may not always be appropriate to require LPOs, particularly in very low volume outlets, to offer business banking.

3.108 **Recommendation (8)**

The Committee recommends that the Treasurer negotiate with the Minister for Communications to ensure Australia Post's giroPost services are extended to include business banking services.

Expansion of the giroPost network

3.109 In giving evidence to the Committee, Australia Post emphasised that electronic banking involves a high cost and that it can only offer it where it is commercially viable to do so. It currently requires an outlet to have 12 000 transactions per year including banking and bill paying transactions.⁹² According to POAAL, some post offices find themselves in something of a catch 22 situation in that 'if they do not have the technology, they cannot do the business; but, if they have not got the business, they cannot get the technology'.⁹³

3.110 Australia Post is actively seeking a low cost technological solution that will enable it to extend its services into low volume areas.⁹⁴ Already a number of outlets are linked to a more limited facility, EFTPOB (electronic funds transfer point of banking) which only offers banking services.⁹⁵ POAAL suggests an EFTPOB device

92 Submission no 156, vol 6, p 584 (Australia Post).

93 *Transcript of evidence*, Launceston, 23 April 1998, p 341 (Mrs McGrath-Kerr).

94 *Transcript of evidence*, Melbourne, 22 April 1998, p 215 (Mr Ryan).

95 *Transcript of evidence*, Launceston, 23 April 1998, p 342 (Mrs McGrath-Kerr).

costs approximately \$2000.⁹⁶ If EFTPOB is a less expensive facility to install, there may be a case for an expanded use of EFTPOB in low volume areas.

3.111 The Committee understands that EFTPOB provides basic banking services but will not allow for the bill paying that can be done through giroPost. Although bill paying by electronic means removes the need for cash for those transactions and therefore contributes in its own way to cash problems associated with this issue, the Committee's immediate concern is to secure basic banking services for communities. In functionality and cost, EFTPOB appears similar to the device developed by Bank SA. This device, described in more detail at 3.130 – 3.136 has been very successful in providing basic personal and business transactions to very small communities.

3.112 Australia Post considers that its ability to expand the giroPost network would be enhanced if the major banks joined the network. Currently only one of the four major banks, the Commonwealth Bank, participates in the giroPost system. In giving evidence to the Committee, two of the majors expressed strong reservations about joining.

3.113 One of their principal objections relates to the Australia Post's policy on access to sites. Australia Post is a national network with uniform services offered in all outlets. It described some of the major banks as 'reluctant to adopt giroPost on a national basis because of concerns that this will cannibalise business from bank branches.'⁹⁷ Two of the major banks confirmed these concerns in evidence before the Committee.⁹⁸ Westpac explained the difficulty in the 'all or nothing approach' as follows:

If you take the many cases where there is a Westpac branch with maybe a postal agency or the post office next door, we operate in the giroPost environment where we pay them a fee to service our customers - it is a fee for service business - but from our customers' point of view it is the same cost going into either place. If we actually have customers who say, "I'm at the post office, I might as well do some Westpac banking," they are incurring even more costs which there is no way we can avoid because we have a branch right next door to run as well. They are only making those branch economics or that town service economics even worse for us.⁹⁹

3.114 According to Australia Post, cannibalisation has not been a problem for their banking principals. In evidence before the Committee, the Commonwealth Bank dismissed the significance of the issue explaining that the agency is viewed as another convenience for their clients.¹⁰⁰ The Committee does not see any strong evidence to support the cannibalisation theory.

96 *Transcript of evidence*, Launceston, 23 April 1998, p 342 (Mrs McGrath-Kerr).

97 *Transcript of evidence*, Melbourne, 22 April 1998, p 215 (Mr Ryan).

98 *Transcript of evidence*, Melbourne, 22 April 1998, p 245 (Mr McLean), *Transcript of evidence*, Canowindra, 27 July 1998, pp 671-672 (Mr McFadden).

99 *Transcript of evidence*, Canowindra, 27 July 1998, pp 671-672 (Mr Joss).

100 *Transcript of evidence*, Canberra, 28 May 1998, p493 (Mr Long).

3.115 Australia Post gave a number of reasons for not offering selective access to giroPost including their view that equity considerations would require selective access to be granted to all principals if granted to the majors. Australia Post argued that this would affect the commercial viability of giroPost and could effectively result in only low volume sites offering giroPost.

3.116 GiroPost, Australia Post argues, is marketed as a national network with uniform services. Selective access would be confusing for customers. POAAL supported this point. 'We want the same services everywhere. If you have to say 'at selected post offices' or 'at certain post offices', or 'only at post offices that bear this sign', it is then discriminating against the whole network and the network loses its integrity.'¹⁰¹

3.117 Australia Post also cited technological limitations relating to the fact that the system has been set up for national access and not site by site access.

3.118 Having detailed the arguments for and against selective access, the Committee reiterates that its main concern is to find a way to significantly expand the giroPost network. The arrangements made between Australia Post and its banking partners are a commercial matter. The Committee does not consider it a feasible proposition to force the other major banks to join giroPost. Through giroPost communities already have access to one of the major banks and a host of smaller banks.

3.119 The Committee's interest is in seeing the giroPost network expanded to include more communities rather than more banks added as participants. The Committee recognises that some Australia Post outlets are in extremely remote places or in areas with very small populations. It is unlikely that these outlets will ever gain access to giroPost under existing commercial viability requirements. In describing the difference in the minimum transactions threshold that may exist with lower cost technology, Australia Post speculated that the number may be in the range of 4000 - 5000 transactions a year instead of 12 000. According to POAAL, there are some LPOs which may still do only three or four transactions a day.¹⁰²

3.120 In its submission to the inquiry, POAAL argued that all LPOs should be provided with electronic counter services. Although the Committee believes that all communities that are large enough to warrant a postal outlet should also have access to reasonable financial services, it refrains from suggesting that all postal outlets in areas without a bank branch have electronic banking technology installed in them.

3.121 Firstly, such a requirement would amount to the imposition by implication of a CSO on Australia Post for the delivery of banking services. Australia Post is required to act commercially and is under no community service obligation in this area. One submission suggests that Australia Post's community service obligations under Section 27 of The Australian Postal Corporation Act 1989 be extended to

101 *Transcript of evidence*, Launceston, 23 April 1998, p 348 (Mrs McGrath-Kerr).

102 *ibid.* p 344.

‘include banking facilities at licensed post offices and agencies and that ‘the costs incurred be funded by direct budgetary payments.’¹⁰³ Although the Committee considers that Australia Post has a key role in enhancing the access regional and remote communities have to financial services, it is reluctant to recommend the imposition of further CSOs on Australia Post until it is satisfied that there is no other option.

3.122 Secondly, it may not be the preferred option for all communities. Communities differ in a variety of ways including composition and the resources that they can bring to a situation. In some communities, the postal outlets may not be the best location for banking services.

3.123 The Committee favours an approach which will both secure access for communities to the financial services they need and offer some choice in the arrangements that are made to do this.

3.124 Under the Rural Transactions Centres initiative (to be described more fully later in this chapter), communities will be able to apply for improved access to a menu of primary transactions including personal and some business banking transactions. The Committee suggests that any community without access to a bank branch or agency offering personal and basic business transaction services be eligible to apply to have the technology to have electronic banking services installed in the postal outlet as one of the options available to them. Such funding should also provide for associated upgrading of security arrangements.

3.125 The Rural Transaction Centres policy states that ‘extended services should be largely commercially viable add-ons with contributions sought from the community or the RTC provider in order for these services to be provided’.¹⁰⁴ However, as mentioned above, many of the communities in question are without access to giroPost or EFTPOB precisely because the services are not commercially viable in those areas. It is important that these communities are given access to RTC funding not only for the installation costs involved but also, if necessary, as ongoing support in much the same way that pharmacies in remote and isolated communities receive support.¹⁰⁵

3.126 **Recommendation (9)**

The Committee recommends that the Minister for Regional Services, Territories and Local Government and the Minister for Communications negotiate an agreement whereby funding from the Rural Transaction Centres Program be used to install giroPost or an EFTPOB style mechanism where communities are able to demonstrate that there is a need and demand for the services.

103 Submission no 18, vol 1, p102 (The Country Women’s Association in Tasmania).

104 Coalition Policy on Rural Transaction Centres, p 5.

105 National Health Amendment (no 2) Bill 1994. Bills Digest. p 1.

Bank SA's electronic agencies

3.127 The St George Group consists of St George Bank, Bank SA and the former Advance Bank. Representatives from St George and Bank SA appeared before the Committee in February 1998 and described the concepts they have developed to enable them to maintain services in areas they do not consider commercially viable for the maintenance of full branches.

3.128 "Bragencies", established by St George Bank, offer deposit and withdrawal transaction services. "Bragencies" can also open new accounts and refer customers to lenders. They cannot offer lending advice nor can they process loans. "Bragencies", according to St George, 'offer a higher level of service than one may associate with being a pure agent'.¹⁰⁶

3.129 Bragencies operate in communities where transactions are around 2500 transactions a month as against 10 000 transactions in a full branch. Generally towns need to have a population of between 5000-8000 to reach the level of business required to sustain a bragency. They are therefore not an alternative for the very low volume country areas.

3.130 Bank SA has developed a technology based delivery channel that allows for services to be provided electronically to very small country towns with populations ranging between 50-5000/6 000. The electronic agency allows for basic transactions including the deposit and withdrawal of cash, the deposit of cheques, the ordering of statements and inquiries about account balances.¹⁰⁷

3.131 With the cost of the terminal itself being in the order of \$2000, and on-going communication costs being in the vicinity of 20 cents a transaction,¹⁰⁸ the Bank SA electronic agency must be considered a highly attractive alternative means of delivering banking services to low volume sites.

3.132 Bank SA has established approximately 190 electronic agencies in country areas in South Australia and has recently expanded this network into Western Victoria. The electronic agencies are located in premises of small businesses that generally have a high profile in the community including local delicatessens, supermarkets, service stations and real estate agents. The Committee visited one of these agencies in the course of this inquiry. Located in a small supermarket in a very small town, the electronic agency demonstrated that it satisfied the needs of residents and small businesses in the town for cash transaction services, and for local businesses, a secure place to deposit their takings. Although the transactions are processed electronically, they are done in the presence and with the assistance of the agent. The agents confirmed that this had been of particular benefit to those who are not yet comfortable with the technology, including some of the elderly.

106 *Transcript of evidence*, Sydney, 19 February 1998, p 98 (Mr Ward).

107 *Transcript of evidence*, Sydney, 19 February 1998, pp 100-101 (Mr Kanizay).

108 *Transcript of evidence*, Sydney, 19 February 1998, p 100 (Mr Kanizay).

3.133 The Committee is impressed by Bank SA's electronic agency. It is a low cost means of delivering basic personal and business transactions that preserves some degree of face to face delivery. It is installed at no cost to the agent who's own business and viability is enhanced by the retainer and commissions paid by the Bank. Customers benefit by having greater access to services because of the extended hours of trading of most of the host businesses. Their needs for other banking services are catered for by mobile lenders working out of the bank's commercial banking centres or through telebanking with referrals being made by the agents. The presence of the agency in town also assists in keeping the cash flow circulating within the town essentially maintaining the town's 'cash float' and reducing the need to bring cash in from another centre.

3.134 Bank SA developed the concept as a means of keeping customers in areas in which it closed its branches and as a means of attracting business in others. Although the Bank has closed many of its branches in South Australia, it has not withdrawn without leaving at least an electronic agency in place.¹⁰⁹

3.135 The development of this mechanism by one of the smaller banks must challenge or at least raise questions about the explanations offered by Australia Post for not yet having introduced a low cost alternative. Essentially the Bank SA electronic agency offers the same level of service as banking customers can receive through giroPost. The device may be similar to the EFTPOB offered by Australia Post in some areas.

3.136 At its second appearance before the Committee, the ABA reported that the 'banks are investigating the feasibility of electronic technologies what that will allow a range of approved agents to accept multibank deposits and withdrawals at sites where only the individual bank cash withdrawal facilities previously existed'.¹¹⁰ Described as being similar to EFTPOS, the multibank terminal would allow for deposits as well as withdrawals. In the light of the capacity of the Bank SA electronic agencies, the Committee challenges the Australian bankers' Association and its member banks to get on with the job. The Committee is concerned that this proposal will turn out to be another example of the seeming inability of the major banks to cooperate in the interests of the broader community. This matter is discussed in more detail at 4.26–4.28.

Westpac's in-store branch concept

3.137 Westpac has developed an in-store branch concept that utilises technology products developed by the Bank to provide a range of banking services to customers living in rural and remote areas.

3.138 Under its in-store branch arrangements, WESTPAC enters into a commercial agreement with the 'agent' who provides basic teller functions and some enquiry functions on Westpac's behalf. Westpac pays for the capital costs involved in

109 *Transcript of evidence*, Sydney, 19 February 1998, p 107 (Mr Kanizay).

110 *Transcript of evidence*, Canberra, 2 July 1998, p 556 (Mr Aveling).

establishing the in-store branch including the cost of computers, phone booth and security equipment. It also pays ongoing operational costs including telecommunications and stationery costs. Westpac provides training for the 'agent' and is responsible for costs associated with the transfer of cash.

3.139 The cost of establishing and operating an in-store branch are markedly less than those associated with running a full branch. The model thus enables Westpac to make significant cost savings while at the same time maintaining an over-the-counter presence in areas in which it considers it is no longer commercially viable to maintain a full branch. The arrangement also enables Westpac to keep control over the quality of service associated with its brandname.

3.140 The model satisfies many of the needs for basic personal and business banking services for those in remote and regional areas. It provides customers with access to over-the-counter services, a feature of particular benefit to the elderly, disabled and others uncomfortable with technological alternatives. Businesses maintain access to cash and a secure place to make deposits. Depending on the nature of the site, customers may gain access to extended hours of trading.

3.141 In-store branches are equipped with a phone booth from which customers can access the services normally available as part of telephone banking. Customers can also make appointments through the in-store branch with a mobile manager for loan applications or other matters.

3.142 Many people who gave evidence to the Committee about agency arrangements expressed some concern about privacy. In the Westpac model, the 'agent' simply performs the transaction and is denied access to information about the customer's account balance or any other information about that customer held by the Bank. Customers can access this information via the telephone handset.

3.143 In return for providing the service, the 'agent' receives a commission on the transactions and a management fee. The boost to income potentially enhances the viability of the business concerned. Unlike agency arrangements based on a franchise or community bank concept, the Westpac in-store branch model does not require financial investment from the business or organisation acting as 'agent' or community. Any risk involved is borne by the Bank.

3.144 Westpac opened its in-store branch of this kind in Canowindra in July 1997. The Committee visited this in-store branch as part of this inquiry and was satisfied that it answers many of the problems that are created by the closure of a branch.

3.145 The system has been developed with a view to allowing in-store branches to be established in a variety of locations, including local small businesses and government agencies. The Canowindra agency operates out of a newsagency. Another in-store branch, due to be opened in April 1999, will operate out of a drapery.¹¹¹

3.146 In an arrangement that bears similarities to the alliance described earlier between the Queensland Electricity Credit Union and the Queensland Government

111 Westpac Press Release, 'Westpac to Open New Branches in the Bush' 16 February 1999.

Agents Program, Westpac has entered into a partnership arrangement with the Tasmanian Government to ‘test the viability of installing Westpac’s in-store branch technology in the State government’s one-stop-shop-service delivery network known as Service Tasmania’.¹¹²

3.147 The arrangement involves Westpac paying Service Tasmania a commercially based transaction fee for acting as an ‘agent’ for it thus boosting the viability of the Service Tasmania operation and extending the range of services available to a community. According to Westpac the partnership arrangement with Service Tasmania

Reflects the bank’s position that branch closures in a country town are a symptom of a far wider problem – and, therefore, any policy focussing on symptoms (such as banks) rather than causes cannot provide a viable, long-term solution. Instead we believe that all levels of government should be looking to working with the private sector to develop mechanisms for taking – jointly, where appropriate – services back to the bush where this can be done in a commercially viable manner.¹¹³

3.148 Essentially the Westpac third party agency model is based on an aggregated delivery of services approach. The model allows Westpac to undertake simultaneously a number of cooperative ventures with partners ranging from single small businesses to large organisations with their own national network.

3.149 In November 1998, Westpac announced a \$300 million upgrade of its national retail branch network. As part of what it describes as a modernisation of the network, Westpac will review all older style branches. In view of this announcement, the Committee is aware that the very success of Westpac’s third party agency model may pose a threat to the maintenance of full branches in towns that still have them. A consideration of this development must be seen against the background of restructuring that is taking place in rural and regional Australia. The reality is that commercial enterprises and government and non-government service providers are reviewing their operations in rural and regional Australia. To date this process has resulted in organisations withdrawing services with little consideration for the communities involved.

3.150 In announcing what amounts to a major review of its branch structure, Westpac expected concerns that the move would lead to more branch closures in regional and remote areas of Australia and has made a commitment to ‘maintain the current overall level of branch numbers in the network and a face-to-face-transactional banking facility – via either a traditional branch or a new in-store branch-in every country town it currently operates in.’¹¹⁴

3.151 In making this commitment, Westpac has preserved the right to make decisions in the commercial interests of its shareholders. At the same time it has

112 Submission no 129, vol 6, p 1087 (Westpac).

113 *ibid.* p 1087.

114 Westpac Press Release, 6 November 1998.

acknowledged that the bank does have a social responsibility. In the Committee's view, solutions that are sustainable in the long term must achieve this form of balance.

3.152 In making public its intentions, Westpac has also departed from what has appeared, in the absence of any information to the contrary, an ad hoc approach on the part of banks to the rationalisation of branches. Although communities have been put in some sense on the alert by the announcement, they have also been given a chance to plan for change. Westpac has made a commitment to handle the changes sensitively and 'with full consultation with staff, customers and local communities to ensure the most appropriate banking facilities-focused on their local banking requirements-are provided'.¹¹⁵

3.153 The Committee commends Westpac for developing a strategy to address the genuine concerns of people in regional Australia about access to financial services. It remains to be seen how effective the strategy will be. Although the Committee is aware that one of the in-store branches to be opened later in the year will be in a location previously without a Westpac branch and another will be opened in a location which previously had no bank branches,¹¹⁶ it notes that the strategy does nothing to address the concerns of communities which have already lost their Westpac branch.

Other bank agencies

3.154 BankWest has a wide network of agents in country towns in Western Australia with almost twice as many agents as branches. Most of its 75 agents are known as authorised agents. These agents are able to offer personal customers most day to day banking transactions. Approximately half of its agents are superagents who in addition to the services offered by authorised agents offer many of the transaction services required by businesses. BankWest has established agents in all centres where it has closed branches. The Bank provides the necessary equipment involved in establishing an agency including a cash safe and enhanced security arrangements. It also has a policy of ensuring the alternative arrangements are in place before closing the branch.¹¹⁷

3.155 Trust Bank also has a network of agencies throughout Tasmania and sees agency arrangements as being an integral part of its future distribution channels.¹¹⁸

Expanded role for non-financial institutions

3.156 The closure of banks clearly represents an opportunity for organisations traditionally not associated in a major way with the delivery of financial services to expand their involvement. A number of these organisations appeared before the Committee to outline their potential moves.

115 Westpac Press Release 6 November 1998.

116 Westpac Press Releases 16 February 1999.

117 Submission no 125, vol 5, pp 1046-1051 (Bank of Western Australia Ltd).

118 *Transcript of evidence*, Launceston, 23 April 1998, p 362 (Mr Clues).

The Pharmacy Network

3.157 In evidence before the Committee, the Pharmacy Guild of Australia, a national industry association for owners of pharmacies, outlined the potential for pharmacies to play a significantly expanded role in the delivery of financial services to those in regional and remote parts of Australia.

3.158 Community pharmacies, the Guild suggested, are well placed to take this role. With 30 per cent of pharmacies already acting as agents for banks, credit unions and postal outlets, pharmacies have a proven track record in this area. With the withdrawal of banks from country towns, this number is growing. The high standing pharmacies have in the community, as evidenced by their high ranking in community surveys of honesty and integrity, also makes them appropriate sites for operations involving cash transactions and in which privacy is valued by customers. The Committee concurs with this view.

3.159 In February 1999, the Guild advised the Committee that considerable progress had been made towards realising its vision to expand its involvement in banking services including the preparation of a feasibility study for a Guild Bank. The proposed Guild Bank, a joint venture between the Guild and BankWest, will offer both a full retail banking service and business banking services. A Heads of Agreement between the partners has been signed to assess the formation of the joint venture and to prepare a business plan. According to the Pharmacy Guild, work is well advanced.

3.160 The Guild Bank will utilise the Pharmacy Internet which when fully developed will link all 5000 community pharmacies giving it an even broader coverage than the Commonwealth Bank has through its association with Australia Post. The Guild believes that the network 'could provide a virtual private network of banking outlets covering every regional and remote locations in Australia'.¹¹⁹

3.161 In the Committee's view, the Guild's proposal is significant. In offering business and personal banking services, the Guild Bank would solve many of the problems that communities without bank branches experience. Many of the people who are particularly disadvantaged by the closure of a branch, including the elderly and recipients of government transfer payments, would benefit from having access to banking facilities in a pharmacy. The Committee notes that these are often the customers who are of least interest to the major banks.

3.162 As pointed out by the Pharmacy Guild, the network could also be utilised to deliver a wide range of other financial transactions for governments, a development which would not only increase the viability of the pharmacies in small towns but would also increase the likelihood of communities maintaining access to services. Pharmacies, many of which are already offering Medicare Easyclaim facilities, could be well placed to play a role in the government's Rural Transactions Centres program.

3.163 The Guild's banking initiative which will result in BankWest, a relatively small regional bank vastly expanding its representation across Australia, demonstrates

119 Submission no 18, vol 1, p 103 (Country Women's Association in Tasmania).

the opportunities that are available through strategic alliances between financial institutions and other organisations.

3.164 The Committee commends the Pharmacy Guild and considers that the Federal government should do what it can to facilitate this important development.

3.165 **Recommendation (10)**

The Committee recommends that the Minister for Financial Services and Regulation monitors the Guild Bank development with a view to facilitating such initiatives.

Elders

3.166 Elders Limited, one of Australia's oldest pastoral finance companies, offers a diverse range of financial services to its rural client base. These services are primarily seasonal finance and term lending but include farm management advice, futures and options trading and forward contracting.¹²⁰

3.167 Elders proposed to the Committee that its distribution network of 170 branches Australia wide be used to 'facilitate the delivery of additional banking services, either as a principal agent or as an agent for other financial institutions'.¹²¹ It informed the Committee that it was pursuing the possibility of developing a strategic alliance with the banks.¹²² These discussions have resulted in a joint venture between Elders and Bendigo Bank that will see Bendigo Bank products and services delivered through Elders' outlets around Australia.¹²³

3.168 This is another example of the alliances developing between financial institutions and other businesses that are changing the landscape of financial services industry. The arrangements are clearly beneficial for both businesses and for the rural producers the venture is targeting. Although the arrangement will increase the options that are available for rural producers, the fact that most Elders outlets are located in areas that are reasonably well served by the banks makes it less likely that the arrangement will play a large role in solving the problems that have been the focus of this inquiry.

3.169 In the Committee's view, Elder's potential to fill the void left by the withdrawal for the banks is therefore limited at least in terms of the provision of transaction banking services to the general rural population. Elders has traditionally focussed on rural producers and as it pointed out to the Committee, its potential to act as a third party agency for financial institutions is limited by the fact that its branches are not typically located in high-street locations. '[Because], we have merchandise business; we are required to keep those type of operations away from the main street because of the chemicals that we store. So we are not naturally located to service the

120 Submission no 45, vol 2, p 323 (Elders), *Transcript of evidence*, Adelaide, 30 April 1998, p 449 (Mr Ormsby).

121 *ibid.* p 324.

122 *Transcript of evidence*, Adelaide, 30 April 1998, p 451 (Mr Ormsby).

123 'For decades a solid citizen', *The Age* 4 November 1998.

pensioners or the people living in the town because we are not in the normal area where the retail traffic is flowing.’¹²⁴

3.170 In Elders’ view the banks target the top 20 per cent of rural producers. While clearly interested in filling the void left by banks, Elders made clear to the Committee that their business was not in consumer type transactions. Their priority would remain focussed on rural producers, particularly the next 60 percent.

We see that as our key market-to pick up the vacuum or the void that the banks are potentially creating by withdrawing their branches and only focussing on the top end of the credit service. In our view, there is more to banking than transactional services. It is really developing a long-term relationship with someone who will be there and someone they have access to.¹²⁵

Rural Transaction Centres

3.171 In September 1998 the Government announced that it would provide up to \$70 million dollars over the next five years to establish up to 500 rural transactions centres in rural areas of Australia. The Rural Transaction Centres will provide services such as personal banking, elements of business banking, postal services, Medicare Easyclaim facilities and phone and fax facilities. They will be run either by local communities or by a small business in the local community.

3.172 Under this proposal, ‘local communities will apply for improved access to a menu of primary transaction services with the option at a later stage to add to a range of extended services such as video conferencing, Jobs Network, internet, private health funds, Centrelink, and other Federal, State and Territory and local government services.’¹²⁶ The government envisages that the RTCs will be run either by local communities themselves or by small businesses in the community, such as pharmacies or licensed post offices.¹²⁷

3.173 The RTC program will start to be phased in during 1999 with the Government allocating up to \$3 million to establish a limited number of centres in different areas around the country. The implementation of the full program is pending the proposed next 16 percent sale of Telstra.¹²⁸

3.174 The program will initially focus on smaller towns with populations between 500 and 3000 which tend to be the size of communities that have lost or are likely to lose a bank branch. The Committee considers that priority should be given to communities which have lost access to over-the-counter financial services and in

124 *Transcript of evidence*, Adelaide, 30 April 1998, p 450 (Mr Ormsby).

125 *ibid.* p 452.

126 Coalition Policy on Rural Transaction Centres 1998, p 3.

127 Submission no 154, vol 6, pp 1270-1271 (Minister for Regional Services, Territories and Local Government).

128 *ibid.* p 1270-1271.

particular to those communities which have no alternative access to over-the-counter business banking and can demonstrate a need for it.

3.175 The RTC program is based on the principal of aggregated service delivery which draws on co-operation between all parties to achieve results that are of benefits to all including the host community. It is a formula that has been at the heart of some of the developments that have already proven to be successful in maintaining or restoring a community's access to the face to face delivery of banking services. That it has been used by key players, one a service provider with an obligation to shareholders, the other an organisation whose aim is to serve communities, gives substantial credibility to the aggregated delivery of services approach. For some communities, the approach may result in maintaining access to services but for others it may provide the opportunity to gain access to services previously denied.

3.176 The Rural Transactions Centres policy recognises the importance of communities having meaningful involvement in the process. However, the degree to which the community is actually given ownership of the RTCs is not described in the policy and, in the Committee's view, is an issue that needs to be addressed.

3.177 The policy also recognises that communities vary in their composition, size, needs and resources. Programs must be flexible enough to allow solutions to be shaped to the characteristics of individual communities.

3.178 The program will fund the capital costs of setting up the Rural Transactions Centres and maintenance costs. In addition to this initial funding, and subject to certain criteria, funding will also be made available to subsidise the running costs of the centres during their early years of operation.¹²⁹ The Committee expects that this will alleviate the difficulties faced by credit unions or newly established branches of financial institutions in the first eighteen months or so of operation. As discussed earlier in this chapter, some communities may require ongoing assistance on a permanent basis. In the Committee's view, provision for this needs to be factored into this program.

3.179 The policy also recognises that there are a number of commercial and government initiatives in place and states its intention to minimise overlap with these initiatives. In the Committee's view, it is imperative that the program facilitates and builds on the initiatives already in place. In the government sphere, these initiatives relate to the programs already in place such as the CreditCare initiative.

3.180 The program is also relevant to the one stop shop initiatives being developed by many governments to deliver services. Two of the most interesting initiatives examined in the course of this inquiry involve partnerships between state government one stop shops and financial institutions, namely the arrangements between the Queensland Electricity Credit Union and the Queensland Government Agents Program and between Westpac and Service Tasmania. These examples have demonstrated the effectiveness of the co-location of financial services outlets with

129 Coalition Policy on Rural Transaction Centres 1998, p 3.

outlets for government services. The Committee considers it is imperative that the establishment of Rural Transaction Centres dovetails with other programs in place at the State and Federal level.

3.181 In the commercial sphere, a number of banks have made significant commitments to maintain a presence in all towns in which they are currently present. It is important that the viability of existing outlets is not threatened by the RTC initiative. Although the banks, credit unions and other commercial ventures will not be eligible for funding under the RTC program, their involvement in individual projects will be encouraged.¹³⁰

3.182 The announcement of the Rural Transaction Centre initiative has been met by considerable interest from the industry and communities. The Committee is concerned, however, that communities and industry are effectively on hold until the government releases full details of the implementation of the program. Any delays may significantly damage the momentum that has built up in communities and in the industry to develop solutions.

3.183 **Recommendation (11)**

The Committee recommends the Minister for Regional Services, Territories and Local Government gives a high priority to determining the scope of the RTC program and the announcement of a timetable for implementation.

130 Submission no 154, vol 6, pp1270-1271 (Minister for Regional Services, Territories and Local Government).

