

CHAPTER 3

IMPACT OF BANK BRANCH CLOSURES ON THE COMMUNITY

3.1 Banks have been part of Australia's history since 1817 when the Bank of NSW first opened its doors. They have played an integral role in the progress of the nation and in promoting the development of country areas. The local bank branch has stood at the centre of commercial life in country towns for decades—a familiar, reassuring, solid and valued part of the community. An abandoned bank building in a country town has deep significance for local residents.

3.2 This chapter draws on the experiences and expectations of those living in regional Australia to understand the effects that branch closures are having on them and their community. It gives particular attention to:

- the context of branch closures including the overall provision of services to regional, rural and remote Australia; and
- the effect of branch closures in country Australia on
 - local residents,
 - local business, and
 - the community.

General decline in the provision of services

3.3 Some regard the withdrawal of bank services as part of a general erosion of the provision of services to country areas of Australia.¹ Mr Leon Davis, Chairman, Westpac Banking Corporation, described this process:

In a thousand towns and villages in rural and remote Australia, the future appears increasingly bleak. Jobs, schools, banks, post offices, country hospitals and footy teams; all are disappearing like water holes in an extended drought. People who once saw themselves as the economic backbone of Australia and the embodiment of Australian virtues such as self reliance and endurance feel their contribution past, current and potential is forgotten or unappreciated. They feel betrayed, powerless and angry.²

1 See for example, CPS Credit Union (South Australia) Ltd, *Submission 59*, p. 1; Shire of Victoria Plains, *Submission 49*, p. 3.

2 Leon A. Davis, Chairman, Westpac Banking Corporation, Deputy Chairman, Rio Tinto, 'The Social Responsibilities of Corporations', Address to the Menzies Research Centre, Melbourne, 18 May 2002.

3.4 The ABA also placed bank closures within the broader context of vanishing services. It stated that banks, like many other service providers including governments and government business enterprises, have responded to commercial pressures from demographic changes. It argued that the provision of banking and financial services in the country must be viewed against the background of much wider change where services such as schools, police stations, hospitals and commercial businesses like pharmacies are in decline.³ It cited a paper prepared by Adelaide University which observed that:

The loss of services in parts of non-metropolitan areas has often been blamed predominantly on private sector organisations, who are depicted as being totally driven by bottom line considerations and lacking a community good element. However, the reality is that the thinning out of services in those areas has been equally apparent among government provided services. Indeed, some would argue that the government provided services—schools, health, hospitals and police especially—are bellwether services; that is, that once they are lost there is a dramatic impact on the community that flows through into other services as well as having very detrimental morale effects.⁴

3.5 Many local councils concurred with this broader view. The Barraba Shire Council maintained that the second biggest obstacle to growth and development of their district, after the departure of government services, ‘is the withdrawal and the perception of the withdrawal of banking and financial services by the established retail banks’.⁵

3.6 The Millmerran Shire Council chronicled the deterioration of services in its towns:

This community, over the past 20 years has seen the closure of the State Government Office of the Clerk of the Court, the closure of the Railway Station and the closure of the CBC and Westpac banks. The National Australia Bank continues to operate however the signs are ominous as the NAB has sold all its assets, ie land and buildings and has significantly downsized staff presence in Millmerran to one permanent and two casuals.⁶

It went on to state its concern that banking services in Millmerran will shortly disappear and is at a loss as to how this trend can be reversed.⁷

3 David Bell, *Committee Hansard*, 14 November 2002, p. 60.

4 *Committee Hansard*, 14 November 2002, p. 61.

5 *Submission 82*, p. 1.

6 *Submission 72*, p. 1.

7 *Submission 72*, p. 1. It also stated that ‘Discussion regularly ensues at Council level with respect to the enticement of alternative banking services to Millmerran and has not discounted the option of forming a community bank, should existing services be discontinued’.

3.7 The Shire of Victoria Plains also noted that the decline of services in rural areas was not confined to banking but applies widely to the provision of services across the board. It maintained that the loss of such traditional services as Post Offices, banking, government utility services such as power, water and gas, have seen marginal operations in the smaller rural areas depart and the flow-on effect has led to the demise of country towns particularly in Western Australia.⁸ It concluded that ‘in other than major regional centres the services currently available to rural residents is non existent’.⁹

3.8 There is little doubt that some areas of regional Australia are experiencing a general reduction in the provision of services.¹⁰ While the subject of regional development is outside the scope of this report, the Committee recognises that the fate of banking services is inextricably caught up in the overall prevailing economic and social climate of the community they serve.

Branch closures and the decline in service provision to country Australia

3.9 While it would appear that the closure of bank branches is part of the general decline in the provision of services to country Australia, it may also accelerate this trend. The Hindmarsh Shire Council clearly saw the withdrawal of a local branch as a dire signal. It stated that the closure of the last bank branch, can be the ‘beginning of the end’ for a small town.¹¹ Mr Barber from the Latrobe City stated simply that for a small community when a bank or school closes, ‘the heart stops pumping in those communities.’¹²

3.10 The following section looks in greater detail at the effects that branch closures have on:

- residents of districts that have lost a branch;
- local businesses; and
- the community.

8 *Submission 49*, p. 3.

9 *Submission 49*, p. 2.

10 Also refer to the Human Rights and Equal Opportunity Commission, *Bush Talks*, Sydney, 1999, p. 1. After visiting numerous communities in country Australia, it noted that in almost every aspect of its work ‘people in rural and remote Australia generally come off second best. Distance, isolation, lower incomes and minority status all exacerbate the experience of discrimination, harassment, and lack of services and participation.’

11 *Submission 87*, p. 2.

12 *Committee Hansard*, 26 February 2003, p. 274.

The effect of bank closures in country areas on local residents

3.11 Many submissions noted the problems a bank closure creates for individual customers. The most immediate consequences for individuals and businesses requiring personal banking and financial services is the trouble and anxiety associated with having to make alternative banking arrangements coupled with the worry and uncertainty caused by having to adapt to new ways of banking.¹³ The problems are particularly acute if the branch is the only one remaining in the town.

Inconvenience and costs

3.12 In particular, the submissions referred to the inconvenience caused by having to travel to the nearest branch.¹⁴ In some cases, people have to journey a considerable distance which adds to costs and is time consuming. The expense and inconvenience can be considerable in regional areas with poor transport systems and where significant travel is involved.¹⁵ The Goulburn City Council noted that as with many rural communities the smaller townships around Goulburn have a high dependency on private vehicle transport because they do not have access to public transport services.¹⁶

3.13 The Uniting Church Synod of South Australia highlighted the difficulties that some people in regional Australia could experience:

For rural areas where there are high levels of unemployment and reduced capacity to travel, the costs of banking borne by the consumer are significant. In Port Pirie, for example, the levels of unemployment are higher than the national average. Elderly people need to rely on the generosity of family and friends. For some widows in Wilmington, for example, who have banked with a chequebook for much of their lives, are now required to drive on the highway for an hour, or be reliant on someone who can drive, to get to the nearest branch in Peterborough.¹⁷

13 See for example comments by the Murgon Shire Council, *Submission 29*, p. 1; the Victorian Farmers Federation, *Submission 104*, pp. 5–6.

14 See for example, the Macedon Ranges Shire Council, *Submission 54*, p. 1. See also, Mr Kevin Allery, *Committee Hansard*, 22 May 2003, p. 476.

15 For example the Australian Catholic Social Welfare Commission noted that rural and remote Australians have further distances to travel, greater amounts of time are required and higher fuel costs are involved. The Australian Catholic Social Welfare Commission, 'A Litany of Disadvantage', October 2000, http://www.centacare.com.au/publications/Discussion_Papers/Rural_Communities.htm p. 4 of 17, (20 October 2002). See also *Submission 6*, p. 2; *Submission 64*, p. 1.

16 *Submission 41*, p. 1. See also the Macedon Ranges Shire Council, *Submission 54*, p. 1 and the Crookwell Shire Council, *Submission 57*, p. 2.

17 *Submission 84*, pp. 5–6.

Savings and security implications

3.14 Moreover, not being able to access over-the-counter services limits people's choices and creates circumstances where they may deposit and withdraw larger amounts of cash. The lack of access to over-the-counter banking services may also be less of an incentive to save. The Uniting Church Synod of South Australia emphasised the point that the customer bears the costs rather than the bank as a result of changing bank practices:

Banking now causes customers increased costs in fuel and time for example, and the customer is now responsible for larger cash withdrawals held for longer than previously.¹⁸

Limited choices

3.15 A number of submissions from local councils could see a direct connection between the reduction of banking services and the loss of opportunity for residents to better manage their finances. The Local Government Association of Tasmania maintained that as banks withdraw from small towns and regions, competition is lessened and the ability of members of the community to 'shop around' for the best banking option is constrained.¹⁹

3.16 Likewise, the District Council of Robe asserted that areas serviced by one bank:

- provide no competition in relation to bank fees, overdraft and credit interest rates, etc for businesses that need to be able to deposit cash;
- are limited in the availability of banking services—shorter opening hours; and
- do not always offer a full range of banking facilities.²⁰

3.17 Worse still, as pointed out bluntly by the Goulburn City Council, 'when banking services are withdrawn there is not always the choice to commute to higher order centres'.²¹ This means that residents have limited choice, in some cases effectively no choice, in selecting a financial services provider or range of products to suit their particular needs whether it is opening a basic transaction account, accessing facilities such as ATMs or obtaining a loan or investment advice.

Financial exclusion

3.18 While the trouble and expense of travelling long distances is an obvious and easily understood difficulty, the lack of adequate financial services, even though less apparent, may have more serious and longer term repercussions for sectors of the

18 *Submission 84*, p. 12.

19 *Submission 43*, p. 2.

20 *Submission 30*, p. 2.

21 *Submission 41*, p. 1. See also the Macedon Ranges Shire Council, *Submission 54*, p. 1.

Australian community. The Barossa Council submitted that ‘it is the personal service that banks previously provided that is lost, particularly in rural areas’.²² Those without access to face-to-face banking may find themselves on the fringes of the financial world effectively excluded from the benefits that the banking industry offers its customers. The Council of the City of Ballarat stated plainly that while people want to withdraw and deposit money, pay bills and transfer funds, they also want advice.²³

3.19 A study conducted by the Financial Services Consumer Policy Centre, argued that ‘The more an individual or community is marginalised from financial services, the more likely it is that they will also be socially excluded, which exacerbates their overall civic marginalisation’.²⁴ It defined financial exclusion as:

the lack of access to financial services by individuals or communities due to their geographic location, economic situation or any other ‘anomalous’ social condition which prevents people from fully participating in the economic and social structures of mainstream communities.²⁵

3.20 According to the study, those at highest risk of suffering financial exclusion include people on low incomes who are in receipt of social security benefits (including pensioners and unemployed), with low education, and living in depressed economic areas or rural and regional areas.²⁶

3.21 As noted earlier the banking world has changed and there are now on offer a vast array of sophisticated products. Marianne Gizycki and Philip Lowe cited in particular the effect that the introduction of compulsory retirement savings in 1991 has had on the way people save for retirement.²⁷ Indeed, just in the area of superannuation alone, there is a growing realisation of the need for individuals to provide for their retirement rather than rely on the public purse. Financial advice is central to effective

22 *Submission 15*, p. 2.

23 *Submission 76*, p. 2.

24 Chris Connolly and Khaldoun Hajaj, *Financial Services and Social Exclusion*, Financial Services Consumer Policy Centre, University of New South Wales, March 2001, p. 6.

25 *ibid*, p. 9.

26 *ibid*, p. 10.

27 Marianne Gizycki and Philip Lowe, *The Australian Financial System in the 1990s*, Reserve Bank of Australia, July 2000, pp. 1 and 6. They noted that ‘The increase in households’ holdings of market-linked investments, and the declining share of wealth held in deposits, has prompted banks to focus their growth strategies on funds management. In turn, this is leading to a further blurring of the distinction between different types of financial institutions, and pressure for consolidation focussed around the major banking groups. The increase in financial assets has also led to the development of markets in a wider range of debt securities, a proliferation of investment products, and a more important role for institutional investors’. They went further to state ‘Little more than a decade ago, the household sector’s major financial assets were direct claims on institutions, either in the form of bank deposits, or defined benefit pension schemes. Households held considerable institutional risk, but little market risk’.

planning but there is an increased risk that people in regional, rural and remote Australia will simply not have access to such advice.

3.22 In summary, the loss of a bank branch, especially if it is the only one in town, has wide-reaching implications for local residents. The main problems are:

- the inconvenience, worry and extra costs associated with having to rearrange or transfer bank accounts or learn new ways of banking;
- the inconvenience and additional costs involved in travelling to the nearest branch to conduct business—keeping in mind that not all residents will have ready access to their own transport and may have to rely on public transport;
- the safety, security and savings implications that arise where residents may withdraw larger amounts of cash than they normally would to tide them over until the next trip to a bank branch;
- the absence of competition leaving residents with limited choices, in some cases effectively no choice, in the range of financial services and products available to them which could lead to loss of saving or investment opportunities; and
- the lack of readily available advice from local bank staff who understand the community—this is particularly important as the provision of financial services is becoming increasingly more sophisticated and there is now a heavy reliance on self funding for retirement. With the withdrawal of financial services from country areas comes an increased likelihood that some people may find themselves effectively excluded from the financial world.

The effect of branch closures on businesses in country towns

3.23 Many submissions spoke of the central role taken by banks in the community and the economic development of the town.²⁸ The Yallaroi Shire Council submitted that it is important to local business that a full range of banking services be provided and this necessitates an operational branch.²⁹ The report now turns to the effect that the withdrawal of bank branches from country towns has on local businesses.

Daily banking affairs—inconvenience and costs

3.24 When a local bank branch closes, businesses have to deal with the same problems as residents. They experience the inconvenience and bear the added costs associated with travelling to a bank branch in another district. The Tamworth City Council made the point about the costs involved in travel for businesses:

Banks do not have to factor into their financial strategies a situation where for example a farmer or small business accountant has to travel from a rural town for example *Barraba* to a Regional City for example *Tamworth* to meet with a banker face to face in order to determine a crucial financial

28 *Submission 9*, p. 1.

29 *Submission 23*, p. 1.

decision between that banker and the client. In this example, the small business accountant may have to allocate three to four hours of his time in travel and business. In this example, the accountant's hourly rate plus his loss of potential business whilst he is absent in a Regional Centre is a charge against his business—not a concern of his banker.³⁰

3.25 The Victorian Farmers Federation reinforced this point. It argued that the increased costs incurred for example in additional travel to access bank services for the remaining businesses will result in margins being reduced or the additional costs being passed on to consumers through higher retail prices.³¹

Safety and security associated with cash management

3.26 Clearly, the withdrawal of local bank branches from country towns creates particular difficulties for businesses in the district. The security and safety concerns associated with managing cash holdings, however, are particularly significant for small business. The KPMG research report, *Small Business Banking in Australia*, found that:

For the majority of small businesses, cash, cheque, and credit cards are the main vehicles of exchange. Without effective and efficient access to money transmission systems to handle these vehicles, small business will be at a distinct disadvantage.³²

It concluded that, 'For those small businesses with a high volume of cash and cheque transactions access to a "local" facility (branch, agency or franchise) is essential'.³³

3.27 A number of witnesses emphasised this view and argued strongly that some form of traditional banking is important for the provision of cash to the township. Mr Walter Brooks, Council of Small Business Organisations of Australia (COSBOA), agreed that managing cash flow and making arrangements for holding cash secure is a particular problem for businesses in towns with no bank branch.³⁴ He stated that businesses are inclined to 'hold onto their takings for an additional day or two to save a trip to the regional centres.' Further, that this tendency has an impact on their normal day-to-day liquidity and 'brings about the situation where they are holding cash to pay the wages and thus exposing themselves to an increased security risk within the business premises'.³⁵

30 *Submission 93*, p. 2.

31 *Submission 104*, p. 5.

32 KPMG Consulting, *Small Business Banking in Australia*, A Research Report, February 2002, p. 10.

33 KPMG Consulting, *Small Business Banking in Australia*, A Research Report, February 2002, p. 10.

34 *Committee Hansard*, 26 February 2003, p. 287.

35 *Committee Hansard*, 26 February 2003, p. 288.

3.28 The Cabonne Council suggested that businesses are forced to close not only because their customers are shopping in another centre but also because the businesses can no longer do daily banking themselves. According to the council, business finds it impossible to maintain an adequate cashflow, and if the small town business is operated by a sole proprietor it would be almost impossible for him/her to deposit the daily income without closing the business itself.³⁶

3.29 Areas that have a significant tourism industry highlight the difficulties faced by small business in managing their cash flow and their greater need for a branch service. For example, tourism attracts numerous international visitors who experience difficulty in undertaking financial transactions in some rural and remote areas.³⁷

3.30 The Winton Shire Council submitted that there is a significant cash requirement, for example, for the opal industry where buyers arrive in town to purchase opal and can require tens of thousands of dollars with less than 24 hours notice.³⁸ Mullewa in Western Australia is promoted as the wildflower capital of the country and tourists are shocked when they arrive and there is no bank for them to visit [closed 1993].³⁹

3.31 The District Council of Robe, which is serviced by one bank, noted that unless customers bank with the one available institution, there is no facility to deposit out-of-hours cash. It maintained that this was a problem during the peak tourism season as businesses may have to hold substantial sums of cash.⁴⁰

3.32 The Committee accepts that small businesses need a convenient local facility to facilitate safe and reliable money transactions.

Fall in trade

3.33 The downgrading of services or the closure of a bank branch, especially the last branch in town, has an effect on other services in the town. Where people leave the area to conduct over-the-counter banking business in a larger regional centre, they tend while there to carry out other business. This means that the smaller towns lose customers. Many local councils and community organisations expressed their concern at the harm done to local business when the town loses its bank branch and residents tend to do their shopping in the centre where there is a bank branch.⁴¹ They refer to

36 *Submission 85*, p. [2].

37 *Submission 30*, p. 2.

38 *Submission 27*, pp. 1–2.

39 Geraldton, Western Australia, August 1998 in Human Rights and Equal Opportunity Commission, *Bush Talks*, 1999, p. 16.

40 *Submission 30*, p. 1.

41 The Country Women's Association of NSW stated that one of the consequences of the withdrawal of banks from country towns has been the slow death of the community. It observed that because adequate banking services, such as seeking a loan, investing money, renegotiation of a loan, can be done only in regional centres, it is to these localities that those with transport

the negative flow-on effects for local business and the undermining of optimism and business confidence in the town.

3.34 For example, the Rosalie Shire Council and the Lockhart Shire Council observed that the loss of banking facilities in rural and remote towns leads to a large amount of escape spending and loss of economic opportunity as people travel to other centres to do their banking.⁴²

3.35 The Post Office Agents Association Ltd supported the contention that the withdrawal of financial services from rural communities has a highly adverse impact on the underlying viability of such communities. It maintained that it forces customers to larger regional areas, changes purchase patterns and reduces the circulation of money in the smaller communities. It submitted:

it has been the long experience of Post Office Licensees who operate their businesses in Australia's rural communities that when people are forced to travel to larger regional areas to undertake their banking services they inevitably seek their goods and services from a location close to where they obtain their cash. The absence of adequate financial services will progressively destroy small communities.⁴³

3.36 The Guyra Shire Council described this process as the multiplier effect:

Not only are local jobs lost to the town, but ultimately families leave the town thus providing added pressure on schools, health facilities, business and other services in the town. The closure of bank branches also can result in people being required to conduct their banking business in other towns. This has the added strain on small towns, as while people conduct their banking business in other towns, they also tend to conduct an increasing amount of other business in that other town thus reducing the viability of a number of other businesses in the town which lost the banking service.⁴⁴

go. Once there for their banking, they also do their shopping, both food and often petrol. *Submission* 86, pp. 4–5. The Municipal Association of Victoria submitted that ‘Reduction of banking facilities in small regional centres has an adverse effect on local business and viability and ultimately on employment on those localities. It produces a destructive downward spiral which is rarely regenerated even though long term growth may be envisaged for the area’. The Municipal Association of Victoria, *Submission* 114, p. 4. The Australian Catholic Social Welfare Commission supported the contention that with the closure of town banks a range of other basic services such as supermarkets, butchers and chemists follow suit, suggesting a spiral of decline. The Australian Catholic Social Welfare Commission, *A Litany of Disadvantage*, October 2000,

http://www.centacare.com.au/publications/Discussion_Papers/Rural_Communities.htm p. 5 of 17, (20 October 2002). See also Murgon Shire Council, *Submission* 29, p. 2 and the Post Office Agents Association Ltd, *Submission* 77, p. 3.

42 *Submission* 16, p. 2 and *Submission* 25, pp. 1–2. See also District Council of Karoonda East Murray, *Submission* 6, p. 1 and Douglas Shire Council, *Submission* 45, p. 1.

43 *Submission* 77, p. 3.

44 The Guyra Shire Council, *Submission* 50, p. 3.

3.37 Some witnesses described the effect of branch closures on local enterprises as devastating.⁴⁵ Mrs Wendy Zerst, Secretary, Nanango Progressive Community Ltd, told the Committee that ‘If we had not opened [a community bank] when we did, I would suggest that there would be possibly—a wild guess—70 per cent of the population going to Woolworths in Kingaroy to do their shopping. Where would that leave our cooperative food store?’⁴⁶

3.38 A number of people have attempted to place a dollar value on the loss to a community of a bank closure. In 1997, Mr Chris Sidoti, former Human Rights Commissioner, suggested that a bank closure costs the local community an estimated \$350 per person per month as people transfer their shopping to their banking town.⁴⁷

3.39 Edenhope and District Community Bank Steering Committee cited research that indicated that for every person ‘that now has to travel to a larger centre on financial business, \$4,000 per head, per annum is then spent out of our town’.⁴⁸ The Uniting Church Synod of South Australia stated that it has been estimated that the closure of a full time bank service takes approximately \$500,000 from a region in the first year.⁴⁹

3.40 There is no doubt that the loss of a bank branch threatens to undermine the economic life and confidence of the community. Indeed, one of the major motivating forces driving community groups to retain a banking service in their area is the fear that the withdrawal of their local bank branches would trigger economic decline.

Erosion of business-banker relationship and the loss of business opportunities

3.41 The research report by KPMG, *Small Business Banking in Australia*, outlined the close relationship that develops between a small business and its bank. It noted:

A history of working with an individual small business through its growth phases and during its ups and downs, allows a bank (or other financial institution) to develop a better understanding of its track record and the capabilities of the owners.⁵⁰

45 ibid. See also the Lockhart Shire Council, *Submission 25*, p. 2 and *Submission 81*, p. 1.

46 *Committee Hansard*, 22 May 2003, p. 482.

47 Chris Sidoti, ‘The human rights of older Australians in the bush’, Speech, Rural Ageing Seminar, Bungaree Station, 1 November 1999, p. 4 of 7
http://pandora.nla.gov.au/pan/13170/200010711/www.hreoc.gov.au/speeches/human_rights/hr_older_au_bush.html (29 October 2002). Mr Sidoti was Australia’s Human Rights Commissioner from 1995–2000.

48 *Submission 81*, p. 1.

49 *Submission 84*, p. 12.

50 KPMG Consulting, *Small Business Banking in Australia*, A Research Report, February 2002, p. 31.

3.42 It goes on to state that as a result, ‘it is better able to respond in times of need to the requests of owners than would be the case of an alternative provider which doesn’t have the same knowledge’.⁵¹

3.43 The Steering Committee on the Summit on Regional Australia also found that impediments such as lack of awareness of new business opportunities, lack of access to capital, low take-up rates of government business assistance, and under developed business skills prevent people from turning local advantage into business ventures.⁵²

3.44 Clearly, the withdrawal of branches deprives local business of ready access to information from banking experts who have a sound appreciation of the economic potential in the locality and likely sources of finance. Many local councils spoke of the disappointment experienced by local businesses at the growing distance between the bank and their business community as bank managers withdraw to regional centres. They are frustrated at their inability to establish and maintain the rapport needed for a sound business-banker relationship and concerned about becoming a community ‘poor in its financial knowledge’.⁵³

3.45 According to Councillor Burgess from the Northern Areas Council, this lack of active engagement between local bank branch staff and residents and businesses means lost economic opportunities. He drew from direct personal experience to illustrate the difficulties country people have where there is no branch manager with an understanding of the locality:

I have been trying to organise the purchase of a piece of farm machinery I wanted to lease because that is what my tax adviser advised me to do, for tax reasons. But the local girl who is now trying to manage the branch had no knowledge of that. She contacted a bloke in Adelaide who had no knowledge of that and who said to me, ‘You just want to borrow money.’ I said, ‘No, it is about leasing.’ You need to have knowledge of the tax advantages associated with that—so you lose that local knowledge. That is the case because I am dealing with a bank. But if you actually have someone in the community who can talk to people and people can casually ask questions of, that knowledge is transmitted so therefore all the businesses and farms and communities can use that knowledge. Whether they use that particular bank or not does not matter because they gain knowledge and can

51 KPMG Consulting, *Small Business Banking in Australia*, A Research Report, February 2002, p. 31.

52 The Interim Report of the Steering Committee on the Summit on Regional Australia, ‘Economic and Business Development in Regional Communities’, April 2000, p. 4 of 6, Economic and Business Development in Regional Communities <http://www.dotrs.gov.au/regional/summit/outcomes/committee/report/development.htm> (29 October 2002).

53 Mayor Strohfeld, *Committee Hansard*, 22 May 2003, p. 457. He told the Committee ‘Most of the people who are in the offices in these smaller areas today have no decision-making power at all. It is all referred to the bigger regional city’. See also comments by Councillor Burgess, *Committee Hansard*, 13 March 2003, p. 433.

therefore run a better business. In theory, the wealth of the community can be enhanced by having that information available to some degree in the community at all times.⁵⁴

3.46 The Surf Coast Shire Council reinforced this point:

Local managers and tellers had the local knowledge and personal understanding to assist the farming and business community in finance and banking decisions. The branch provided a 'face' to banking and the capacity to provide answers to queries on the spot, without the need for lengthy waits and redirections through computerised call centres. The local branches were the bankers for local clubs and associations of which bank staff were often members...Overall the bank played an integral part in community building.⁵⁵

Limited choice in accessing finance

3.47 The absence of competition in the banking sector in small towns further hinders local business in structuring their affairs to best suit their needs. The Northern Midlands Council submitted that the majority of businesses in the district are small in nature and lack the resources and market power to 'shop around' for the best banking option. It claimed that they are often not in a position to fully understand the clauses and conditions in banking.⁵⁶ Local businesses are particularly disadvantaged in obtaining loans.

3.48 As a general observation, the Victorian Farmers Federation stated that bank closures make it more difficult and costly for farmers to access finance for business investment.⁵⁷ Similarly, business people regret the loss of the local bank manager who had direct knowledge of the local community and business. He was regarded as a 'significant asset to their banking relationship' who years ago was seen as 'almost a partner in many businesses'.⁵⁸ This was particularly so in obtaining finance. Mr Brooks, COSBOA, told the Committee:

...what small business needs is an opportunity to go to someone who can talk to them about the alternatives they have with regard to how they finance their business; if they want to get a letter of credit or something like that, what does it involve; likewise, issues such as you raised with superannuation: 'What are the alternatives there?'⁵⁹

54 *Committee Hansard*, 13 March 2003, p. 442.

55 *Submission 9*, p. 2.

56 *Submission 21*, p. 2.

57 *Submission 104*, p. 5.

58 Walter Brooks, COSBOA, *Committee Hansard*, 26 February 2003, pp. 287, 289.

59 *Committee Hansard*, 26 February 2003, p. 289.

3.49 Members of the Northern Areas Council cited examples of where banks appeared to be unduly cautious in providing finance to local businesses. Councillor Burgess suggested that in part this approach by the banks could be due to the loss of a local branch manager who would better have appreciated the circumstances of the local business.⁶⁰

3.50 The Committee understands that the loss of direct contact with a bank branch cuts small local businesses adrift from the mainstream commercial world. This exclusion puts them at a disadvantage in obtaining banking and financial advice, in being aware of new business opportunities, in negotiating business deals especially bank loans and in attracting investment. It also deprives a community of a vital source of encouragement and venture capital.

3.51 Clearly, the loss of bank branches places significant pressure on small businesses which may miss out on opportunities to expand and may ultimately have to close their doors.⁶¹ Although the withdrawal of banking services causes difficulties for local businesses similar to those experienced by the individual resident in some cases they have more serious repercussions. In summary, the main difficulties encountered by local businesses are:

- the inconvenience and extra costs associated with having to rearrange or transfer bank accounts;
- the inconvenience and additional costs involved in travelling to the nearest branch to conduct business—every hour on the road is a cost to business;
- the safety and security issues that arise from managing cash flows and the accumulation of excess cash waiting to be deposited—the transfer of large amounts of money exposes business to new and greater security risks;
- a fall in trade because local customers may be more inclined to shop in the town where their bank is located rather than patronise their local stores;
- the loss of economic opportunities because of the lack of readily available professional advice from bank staff who understand the region; and
- limited choice in accessing finance and in obtaining loans on terms similar to their city counterparts.

The effect of bank branch closures on the community

3.52 The closure of bank branches affects not only local residents and businesses but the community as a whole. Put simply, ‘when you lose the banks you tend to lose

60 *Committee Hansard*, 13 March 2003, p. 434.

61 See for example the work of Chris Connolly and Khaldoun Hajaj, *Small Business Banking: Issues Paper*, Financial Services Consumer Policy Centre, University of New South Wales, April 2002, p. 27.

your town—it tends to die’.⁶² The Council of the City of Ballarat highlighted the flow-on effects of branch closures:

Traditionally the bank was not just a place to do business, but a place that was involved in the welfare of the community, not only as a local employer, but as an adviser to the community. The bank manager provided advice to the community, mostly financial, but often on other matters important to community life. In short, the bank had a leadership role in the community. That role has now disappeared and communities have lost a valuable resource.⁶³

3.53 The Northern Areas Council drew similar conclusions about the consequences of the loss of bank staff on the social and economic life of a small town. It stated:

In a small country town a bank is more than just a central point to undertake financial transactions. It can represent up to four or five salaries that are earned in that town with that money being spent in the local supermarket, butcher, bakery, hardware store, take-away deli, garage and hotel. The families of the bank workers ‘provide’ the children to keep the local school operating and help to ‘make up the numbers’ to justify health and police services. From a community perspective the local bank manager would be the JP able to attest documents or authorise auditing of the local footy team’s accounts. As a respected member of the community the bank manager would be asked to talk to schools and local community groups and might even chair the local progress association. For some small country towns he/she might be the only qualified professional person working in the town able to assist farmers with business and financial planning.

...

Losing access to such a range of skills and experience can be quite devastating and demoralising for a small country town.⁶⁴

3.54 These councils were not alone in arguing that residents value the personal contact, communication and interaction with local branch staff and that branch rationalisation has had a detrimental impact on the Australian way of life in country towns.⁶⁵ Taken together, the effects of a branch closure are profound on a community

62 This sentiment was evident in many submissions from local councils. See Mayor Strohfeld, *Committee Hansard*, 22 May 2003, p. 452.

63 *Submission 76*, p. 2.

64 *Submission 34*, pp. 1–2.

65 See for example, the Rosalie Shire Council which observed ‘Money makes the world go round and when the primary money handling entity leaves a town there is an immediate and substantial loss of other businesses. What follows is a loss of government services and further facilities, to the extent that the town shrinks to a fraction of its size’ *Submission 16A*. There were many other submissions who maintained ‘that the loss of services and the associated employment have acted to further disintegrate rural communities by closing off important opportunities for social interaction and recreation’. The Australian Catholic Social Welfare Commission, ‘A Litany of Disadvantage’, October 2000,

and permeate every layer of community life. The Victorian Farmers Federation conveyed the sentiments of many of the local councils that wrote to the Committee. It submitted:

The effect of bank closures on local community confidence should not be underestimated. In addition to the economic loss to the community of the bank closure, the vacant shop in the main street has a significant demoralising effect. The empty shop will be seen every time people drive through the town.

If the bank closure is followed by reduced local economic activity and other business closures, the remaining businesses and local government will find it more difficult to attract new investment and new skilled residents to the community.

Bank closures in small rural communities can result in families moving away from town to seek alternative employment. This has flow-on effects in reduced local expenditure, and possibly reduced participation in local schools, sporting groups and community organisations may threaten their ongoing viability. If schools, sporting groups and community organisations are put at risk by job losses, the social glue which holds small communities together may disappear.⁶⁶

3.55 Two enduring images used to describe the impact of the withdrawal of banks—the beginning of the end for a small town, and the slow death of the community—capture the frustration and sense of futility experienced by communities who have lost their bank branches.

Conclusion

3.56 Bank branch closures in country towns tend to be part of an overall pattern in the reduction of the provision of services such as education, health and policing in regional Australia. Even so, for some communities the loss of a bank branch has far-reaching consequences not only for individual residents and local businesses but for the town as a whole.

3.57 The Committee cannot ignore the many submissions that recounted their experiences of branch closures. In this chapter, the report has identified the problems facing residents, businesses and the community where banks have withdrawn their branches. The main concerns were with the inconvenience and costs involved in rearranging or transferring accounts, in travelling long distances to conduct face-to-face banking, with safety and security matters arising from the lack of access to a branch, the loss of economic opportunities, limited choice in obtaining professional advice and finance, especially venture capital, and exclusion from the financial world

http://www.centacare.com.au/publications/Discussion_Papers/Rural_Communities.htm p. 4 of 17, (20 October 2002). See also the Manilla Shire Council, *Submission* 91.

66 *Submission* 104, p. 5.

for both individuals and businesses. These concerns stand as the main reference points for the remainder of the report which will concentrate on the initiatives being taken by banking and financial service providers to address the problems.

3.58 The following chapter deals with the more immediate difficulties created by a branch closure. It reviews the practices of the banks when closing a branch and the steps that they have taken to better manage such closures.

