



31 March 2023

Committee Secretary
Senate Standing Committees on Rural and Regional Affairs and Transport (the Committee)
PO Box 6100
Parliament House
Canberra ACT 2600

By Email: rrat.sen@aph.gov.au

Dear Secretary,

Inquiry into bank closures in regional Australia

The Australian Banking Association (**ABA**) appreciates the Committee's invitation to submit to this inquiry into branch closures in regional Australia.

Australian banks are proud partners of regional Australia. Banks support key regional industries such as agriculture, tourism, resources and energy, as well as emerging industries. Further, when natural disasters strike, banks are there to support regional communities.

Banks are significant employers of people in the regions including branch staff, as well as mobile and business bankers who visit customers on farm, at their businesses, or travel to customers' homes. In addition, other bank staff are increasingly able to remotely perform roles that were previously city-based, thanks to technology and online shifts.

Branches remain an important element of banks' regional presence but changing customer preferences are driving changes to these networks. Across ABA member banks, foot traffic in branches has fallen markedly with over-the-counter transactions declining by 36 per cent in regional branches since FY19 (prior to the onset of the pandemic).¹ The pandemic has accelerated previous customer shifts online.

As customers change the way they chose to interact with their banks, from in-person banking to digital and phone channels, their banks are following them. Banks are increasingly shifting their focus from bricks-and-mortar to digital infrastructure, the latter having risen from \$3.5 billion in 2005 to \$28.5 billion in 2022 (an eight-fold increase)², while maintaining strong investment in branch networks.

While noting the above trends, over 80 banks and financial institutions have entered into significant financial arrangements with Australia Post to deliver another face-to-face banking option for customers who retain that preference. The Bank@Post partnership means that there are over 3,500 locations, in addition to branches, where customers of participating banks can access face-to-face banking services. That includes 1,150 regional and remote communities without a bank branch of any brand, who have a face-to-face banking option. Bank@Post complements the continued investment in banks' branch networks for these banks.

Bank@Post is an Australian approach to the co-location banking hub model that exists in countries like New Zealand and the United Kingdom. It has also supported the ongoing viability of many regional and remote Licenced Post Offices.

Banks and the ABA were pleased to participate in the recent Regional Banking Taskforce (**Taskforce**) inquiry into regional branch closures and their impact on communities. The Taskforce was initiated under the former Government in October 2021 and co-chaired by the then Assistant Treasurer, the Hon Michael Sukkar MP, and Senator for NSW, Perin Davey. It was supported by the Treasury and included

¹ FY22 to FY19 over-the-counter transaction data.

² Analysis of the annual reports of three major banks.



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a public consultation process that received over 400 submissions, before being finalised in September 2022. The Taskforce made seven recommendations which banks and the ABA are implementing in recognition that they are well-considered, implementable, and were developed with banks and community representatives in a spirit of genuine collaboration. The ABA commends this approach as integral to driving better customer outcomes.

Given the proximity of the finalisation of the Taskforce's inquiry to the commencement of this Committee's inquiry, we encourage the Committee to avoid duplication and undertake additional policy work that complements that of the Taskforce. In our submission, we have sought to identify areas of potential consideration.

Our attached submission outlines the following:

- the investment and presence of banks in regional Australia;
- changing customer preferences and the impact on the role of bank branches;
- new models of face-to-face banking; and
- improvements currently underway to better support customer outcomes including the banking industry's response to the Taskforce recommendations.

Yours sincerely

The Hon. Anna Bligh AC
Chief Executive Officer

About the ABA

The ABA advocates for a strong, competitive and innovative banking industry that delivers excellent and equitable outcomes for customers. We promote and encourage policies that improve banking services for all Australians, through advocacy, research, policy expertise and thought leadership.



1. Banks' commitment to regional Australia

Australian banks are proud partners of regional and remote communities across the country. Throughout the pandemic, the regions played an important role in supporting the national economy by continuing to operate, produce and grow. Banks have a strong track-record in supporting the regions through the provision of finance and other support as outlined below.

Support for key regional industries

Banks' lending to the agriculture sector has increased by 37 per cent since July 2019. There is currently \$106 billion in credit lent to support agricultural businesses operate and expand. This includes \$10 billion to small businesses, \$75 billion to medium-sized businesses, and \$22 billion to large businesses.³ This, in turn, has contributed to historically high agricultural income for the country, with agriculture generating \$59 billion of gross value added in 2022 and accounting for 2.6 per cent of GDP.⁴

In addition, banks support other regional industries such as tourism, resources and energy; along with emerging industries such as renewable energy and sustainable ventures. One ABA member bank, for example, has reported regional-focused lending of \$4.9 billion in 2022 to businesses creating renewable ventures.

Banks as significant employers in regional Australia

Australian banks and their staff are proud to be based in the regions and contribute to these thriving local economies. This includes branch staff, mobile bankers and business bankers who visit customers on farm, at their businesses, and travel to customers' homes.

ABA member banks employ more than 11,500 staff in regional locations. Further, after investments in enabling staff to work remotely (throughout the pandemic), nearly all bank staff are technologically capable of performing their roles remotely. Many roles that were historically only able to be performed within a city-based 'head office' environment can now be done from regional areas. This includes call and contact centre roles who are supporting the continuing strong customer demand for telephone banking services.

Broader support for regional and remote communities

Banks also play an important role in supporting regional customers and communities affected by natural disasters. Banks offer a range of support in these circumstances, including:

- deferrals of scheduled loan repayments, on home, personal and some business loans for up to three months;
- waiver of fees and charges, including for early access to term deposits;
- debt consolidation to make repayments more manageable;
- restructuring of existing loans, free of the usual establishment fees;
- offering additional finance to help cover cash flow shortages;
- deferring upcoming credit card payments; and
- emergency credit limit increases.

Following the February 2022 floods in Lismore that destroyed and damaged several branches, banks responded quickly. Banks worked with the community to rapidly devise solutions, including standing-up temporary branches and cash-access points in the immediate aftermath of the floods and then subsequently investing to rebuild branches in Lismore.

More broadly, many banks run community grants initiatives to support local grassroots causes. In 2022, ABA member banks provided grants totalling more than \$15 million in regional Australia. This includes

³ Reserve Bank of Australia, D14: Lending to Business – Business finance outstanding by business size and industry

⁴ Australian Bureau of Statistics, National Accounts, Table 6: Gross value added by industry, Chain volume measures



\$3.4 million to support regional communities, \$9.5 million to communities that have been disaster affected, and \$2.2 million for businesses that have been disaster affected.

2. Changing customer preferences

Technology has driven rapid changes to the way banking customers wish to interact with their banks, and banks are following these changing customer preferences by shifting their focus from bricks-and-mortar to digital infrastructure.

Importantly, these changing customer preferences are not just impacting the banking sector. The retail sector has been transformed with the popularity of online shopping, many health services can be accessed remotely through telehealth services, online streaming has completely replaced the old video store model, and ride sharing apps have dramatically affected the taxi industry.

Government service delivery is also increasingly shifting online, with demand and consequent investment in initiatives like the myGov portal, the newly launched myGov app, and Services Australia's focus on modern technology improvements such as the November 2020 launch of video chat options.

These are customer-led digital shifts that are impacting service delivery across the economy. Indeed, the Productivity Commission's (**Commission**) recent '5-year Productivity inquiry: Advancing Prosperity' report – a follow up to the 2017 'Shifting the Dial' report – considered these trends and their impact on productivity in significant detail.

The Commission's report notes the obvious but important point, that:

"...between 1983, when mobile phones were first introduced, to 2007, when the first 'smartphone' (the iPhone) was introduced, mobile phones evolved from being brick-like devices that could be used for making wireless phone calls (itself a significant breakthrough), to small hand held computers with complete access to the internet, bundling a broad range of functions..."

The Commission notes that productivity gains in the services sector are "harder won" than in industries that produce goods such as agriculture and resources. In relation to the former, it notes that the:

"[g]reater use of digital technology and data can improve product quality and consumer choice, particularly in the services sector. Millions of phone apps, online banking, telehealth consultations, computer-assisted services such as counselling, and entertainment streaming services are examples of improved and/or new products enabled by technology and data."

Further, that the pandemic-induced:

"...adoption of digital technologies constituted a massive productivity boost, relative to a counterfactual scenario in which such technologies did not exist or were not adopted en masse. ...the uplift in online capacity (among both businesses and households) combined with a broader embrace of the innovative potential of digital technology, can transform the way the economy operates – services in particular – with significant productivity benefits."

The Commission's report makes 29 reform directives and 71 recommendations to, amongst other things, harness digital technology and customer trends to address the "productivity predicament" facing Australia and many other advanced economies.

The ABA encourages the Committee to consider the thorough examination of these economy-wide trends undertaken by the Commission and build on its work, including reform directive 13 regarding faster and more reliable internet access to underpin productivity growth in regional Australia.

Digital trends in the delivery of banking services

Noting the above, the ABA notes that even prior to the pandemic, Australian banking customers were increasingly choosing to interact through digital and phone channels. That reflects the range of banking services that can be accessed through these and different banking channels (Figure 1a refers).

**Figure 1a: Bank services offered by different modes of delivery (for selected services)**

| | Branch | Bank@Post | App / Internet Banking | Telephone / Zoom | ATM |
|---------------------------------------|--------|-----------|------------------------|------------------|-------------------|
| Open and close savings accounts | Yes | No | Yes (open only) | Yes | No |
| Withdraw cash | Yes | Yes | No | No | Yes |
| Deposit cash | Yes | Yes | No | No | Smart ATMs |
| Check account details & balance | Yes | Yes | Yes | Yes | Yes |
| Deposit cheques | Yes | Yes | Yes (Up to a limit) | No | Yes (With limits) |
| Change for business floats | Yes | Yes | No | No | No |
| Lock card/report card stolen | Yes | No | Yes | Yes | No |
| Card activation | Yes | No | Yes | Yes | No |
| Set or change a card PIN | Yes | No | Yes | No | Yes |
| Apply for a personal or business loan | Yes | No | Yes* | Yes | No |
| Apply for a mortgage | Yes | No | Yes* | Yes | No |
| Pay a bill and transfer funds | Yes | Yes | Yes | Yes | No |
| Credit card repayments | Yes | Yes | Yes | Yes | Yes (Cash only) |

Source: ABA; Note: Depending on bank, available only on internet.

Accordingly, the decline in branch numbers should not be seen as a decline in service options for customers. In fact, there have never been more ways to access banking services. Customers can access online banking services 24/7 and phone banking is typically available from around 8am to 8pm – much longer than the opening hours of most branches.

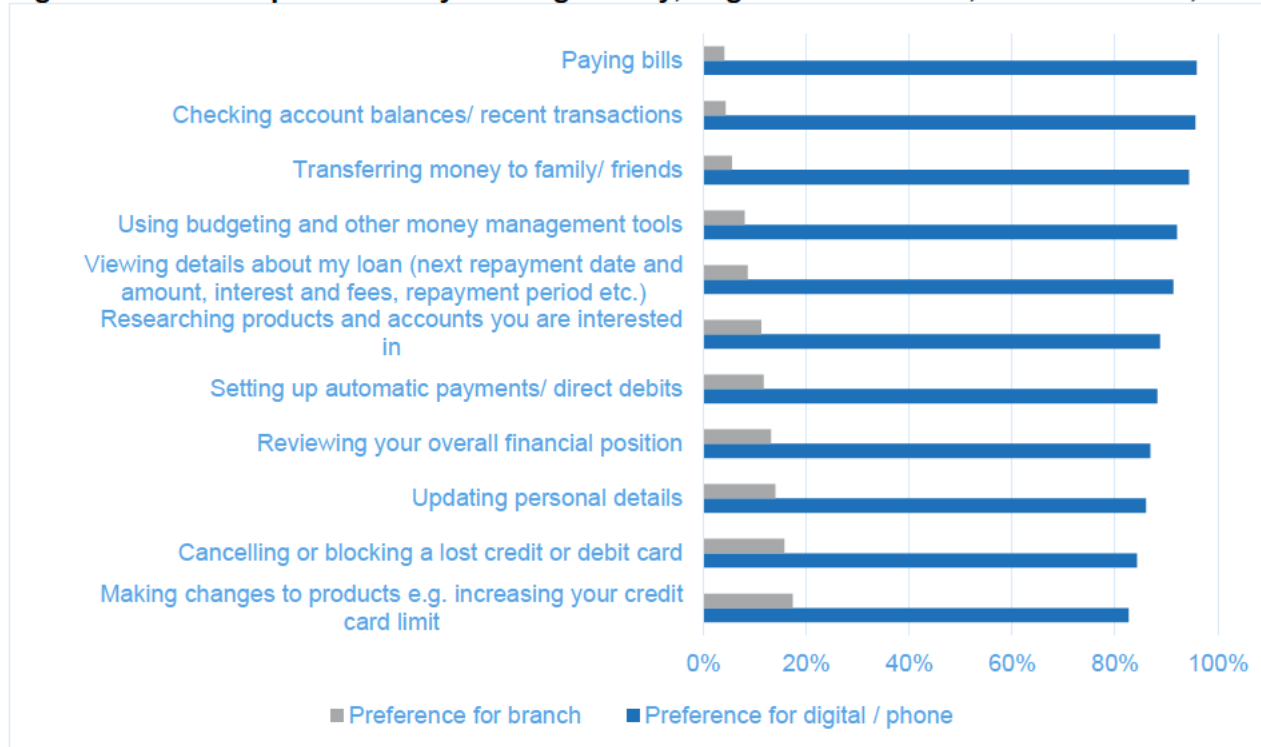
In December 2022, more than two-thirds of Australians reported having downloaded their bank's financial app,⁵ while collectively the major banks report that around 26 million customer accounts (noting customers often have accounts with different banks) are 'digitally active' meaning they have accessed online services in the past month⁶.

Australians report preferring to conduct banking activities digitally/by phone (via their app, through internet banking, live chat or through a call centre) rather than at a branch (Figure 1b refers). There is an even stronger preference for conducting daily banking activities, such as paying bills, transferring money, checking account balances), digitally. The activities where Australians have a less strong preference for digital are more infrequent, one-off interactions – highlighting the continuing importance, but evolving nature, of branches.

⁵ RFI, ADBP quarterly tracker

⁶ Bank Annual Reports, Investor Packs and ESG supplements; ABA

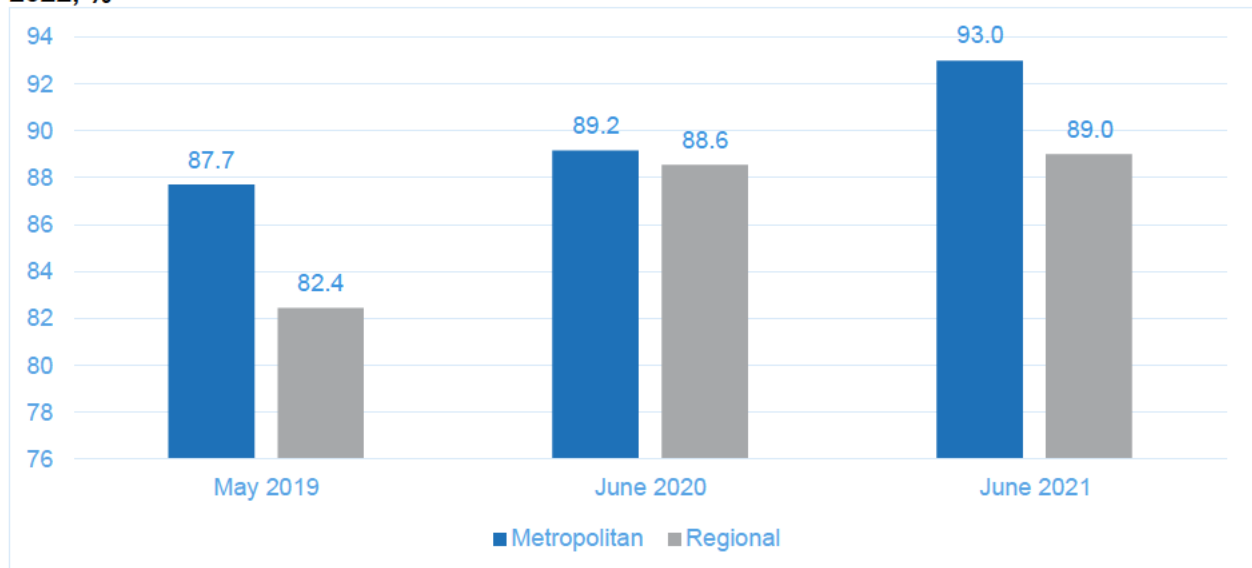
Figure 1b: Channel preference by banking activity, Regional Australians, December 2022, %



Source: RFI Global, ADBP quarterly tracker; ABA

Additionally, in June 2021, 92 per cent of Australians reported having conducted a banking activity online in the previous six months. This figure was 89 per cent for regional Australians, having increased from 82.4 per cent just two years prior (Figure 2 refers).

Figure 2: Whether conducted banking online, metro and regional Australians, May 2019 – June 2022, %



Source: ACMA, How Australians use the internet, accessibility file; ABA

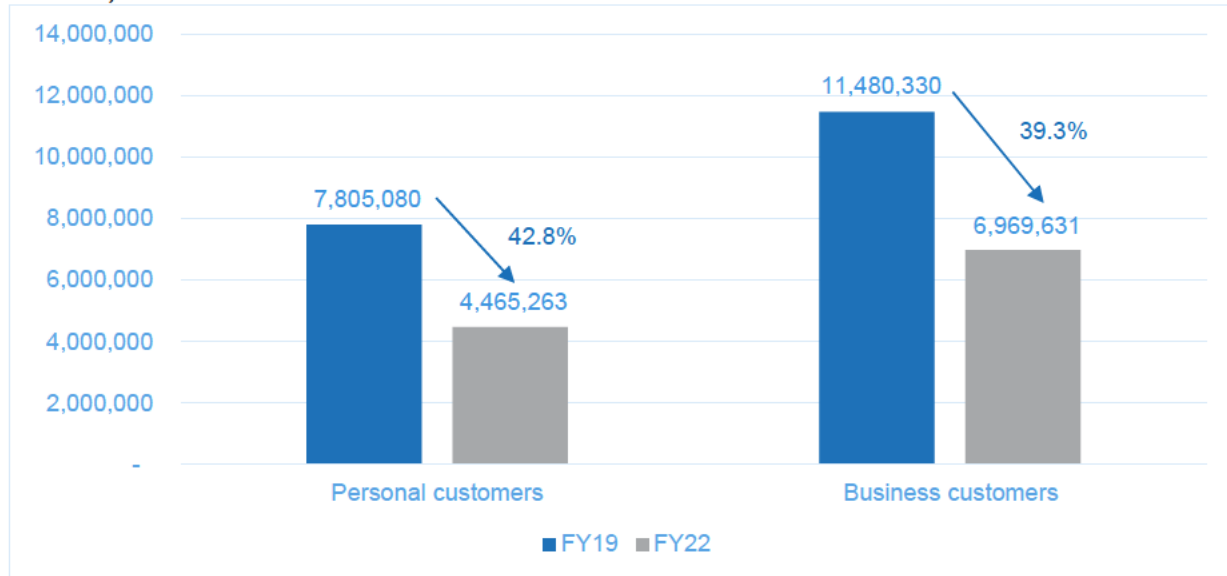
The increasing popularity of online banking has contributed to a significant decline in foot traffic at bank branches. The number of cash deposits made in regional branches has declined by 42.8 per cent for personal customers and 39.3 per cent for business customers (Figure 3a refers), while over-the-counter



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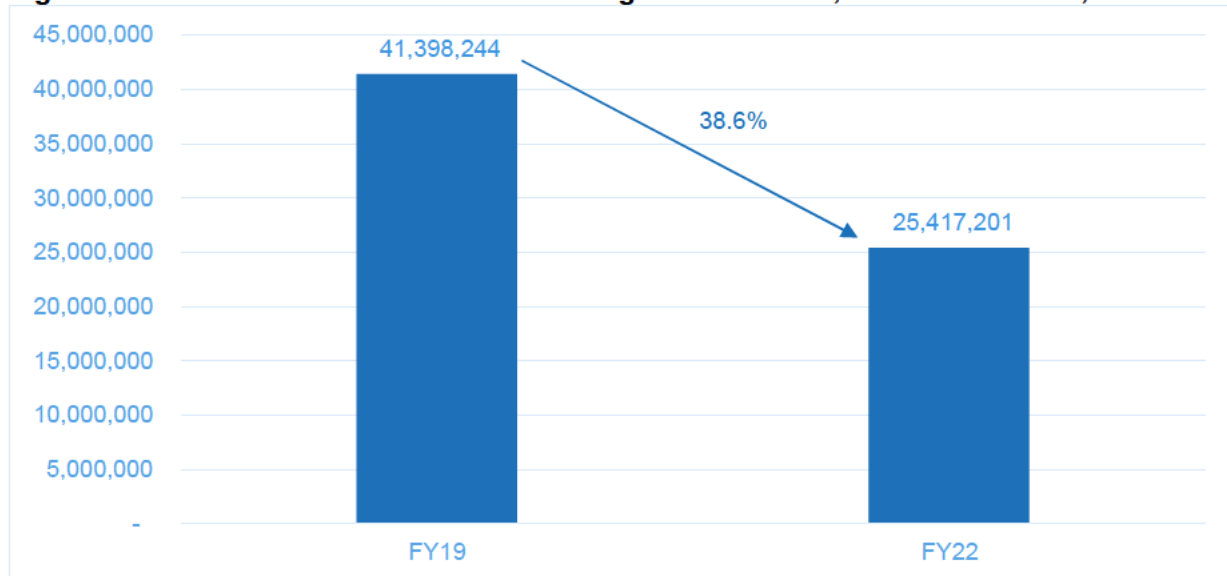
transactions in regional branches has declined by 38.6 per cent (Figure 3b refers). This decline exceeds the proportion of branch closures that occurred over the same period, which was 13.7 per cent,⁷ again suggesting that this decrease is not driven by the lack of availability of branches, but instead by changing customer behaviours.

Figure 3a: Cash deposits at regional branches, Personal and business customers, FY2019 & FY2022, N



Source: ABA member banks – ANZ, Bendigo, CBA, NAB, Suncorp, Westpac; ABA

Figure 3b: Over the counter transactions at regional branches, FY2019 & FY2022, N



Source: ABA member banks – ANZ, Bendigo, CBA, NAB, Suncorp, Westpac; ABA

Customers are increasingly choosing not to visit branches for their everyday banking transactions like transferring money or paying a bill. Instead, branches are being used for infrequent and more one-off interactions, for example Know Your Customer onboarding, safe custody, verification or lodgement of legal authorities such as Power of Attorney, and Financial Management Orders.

Declining branch numbers should also be viewed in light of increasing digital investments. According to analysis of the financial reports of three major Australian banks, in 2005, banks spent around the same in capital expenditure on software (\$1.7 billion) as IT operational costs (\$1.8 billion) and occupancy

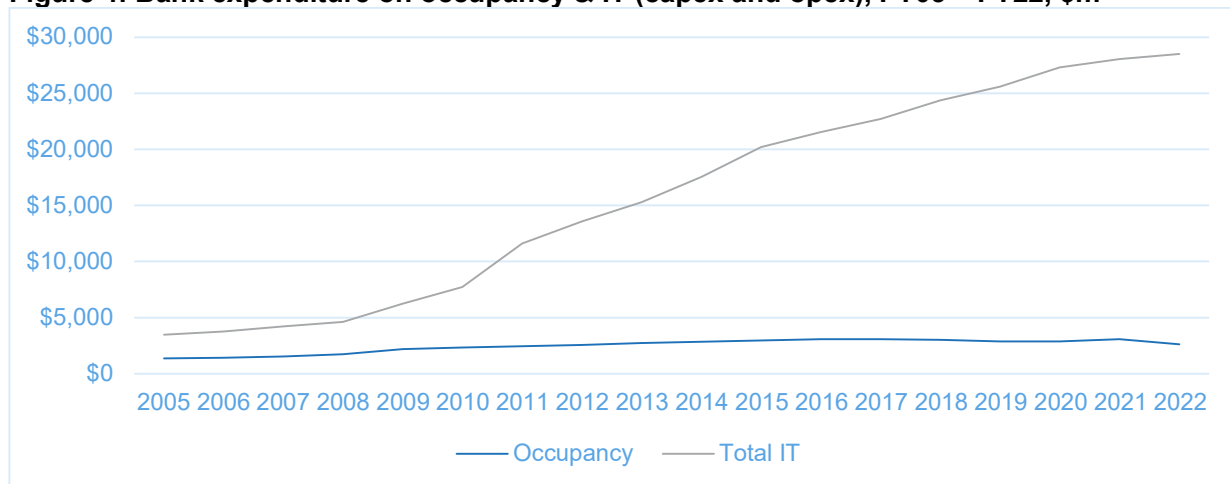
⁷ APRA, Points of Presence Statistics; ABA



costs (\$1.4 billion). In just five years, by 2010, capital expenditure on software (\$5.1 billion) was nearly double both ongoing costs for occupancy (\$2.3 billion) and IT (\$2.6 billion). By 2022, capital expenditure on software (\$22.6 billion) far exceeded expenditure on IT (\$5.9 billion) and occupancy costs (\$2.6 billion).

This represents an eight-fold increase in banks' digital infrastructure spend from \$3.5 billion in 2005 to \$28.5 billion in 2022, while continuing to invest in bricks-and-mortar infrastructure (Figure 4 refers). The significant growth in digital infrastructure spending represents a redirection to the banking channels that customers are increasingly choosing to interact with their banks through. Customers using digital channels also typically have access to a range of financial tools, for example to assist with budgeting and tracking expenses.

Figure 4: Bank expenditure on occupancy & IT (capex and opex), FY05 – FY22, \$m



Source: Bank annual reports: ANZ, CBA, NAB; ABA

3. New models of face-to-face banking

Virtual in-person banking

As digital uptake increases, many customers are choosing to combine the convenience of digital-enabled banking services with a desire to continue interacting face-to-face with their banks. Many banks are reporting a significant uplift in home loan sales and more specialist services that can be done via video. For one ABA member, videoconferencing with a banker now accounts for approximately 40 per cent of all home lending appointments.

This model not only offers convenience but means that customers can access more products, better insights into their finances, and get an answer to their enquiries faster from anywhere with internet access.

Bank@Post partnership

While overall customer preferences are changing, banks acknowledge that some customers will retain a preference for face-to-face banking services. Over 80 banks and financial institutions participate in the Bank@Post partnership, under which their customers can conduct a range of everyday banking services. This complements the continued investment in the branch networks of participating banks.

The banking services available to customers varies, depending on the commercial agreement of their financial institution and Australia Post. At a minimum, personal and business customers can typically do the following through Bank@Post (subject to daily limits):

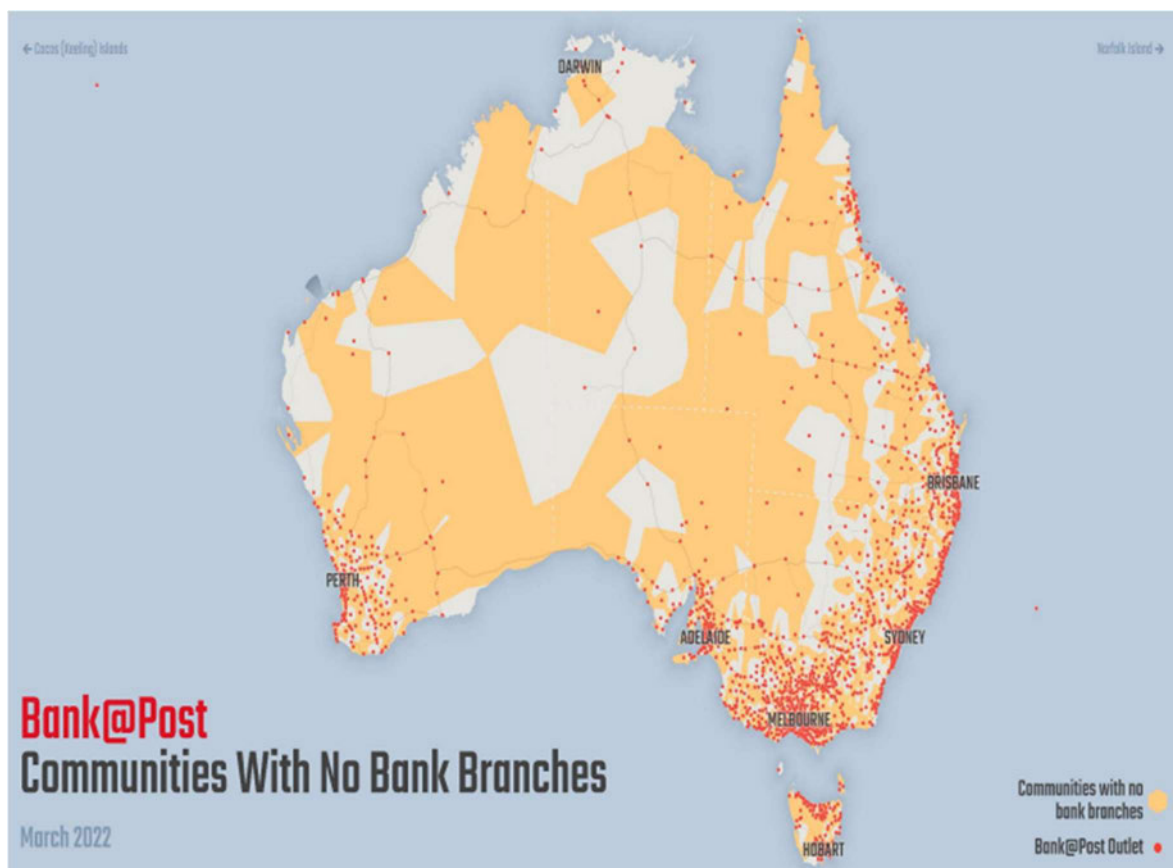
- deposit cash or cheques;
- withdraw cash;
- check account balances.



Participating ABA members report that between 84 and 97 per cent of cash transactions that can be done in a branch or ATM can also be done through Bank@Post, depending on the bank's contractual arrangement with Australia Post.

Bank@Post has been recognised by the recently concluded Taskforce final report as a good face-to-face alternative banking option that has given customers of those participating banks, who retain a preference for face-to-face banking, with over 3,500 additional locations to do so.⁸

To place this in its appropriate context, the over 3,500-strong Bank@Post network far exceeds the branch network of any one bank, with the overall number of bank branches across metropolitan, regional and remote Australia being 4,014 as at 30 June 2022. Further, there are over 1,800 Bank@Post locations in regional and remote Australia, compared with 1,682 bank branches in these areas, as at 30 June 2022. The Taskforce final report noted that 1,150 of these regional and remote Bank@Post locations are in communities without a bank branch of any brand.



Source: Regional Banking Taskforce final report, page 13.

Bank@Post is an Australian approach to the co-location banking hub model that exists in countries like New Zealand and the United Kingdom. Participating banks pay Australia Post to build systems and train staff to deliver banking services to those customers from a single location.

It is important to note that participating banks chose to continue delivering banking services through Australia Post, rather than trialling some of the alternate approaches that are in operation overseas. This was so as to leverage Australia Post's large network and trusted position in communities, and continue the partnership that funds Australia Post as a service hub in local communities.

Bank@Post is a commercial agreement under which participating banks pay Australia Post for the delivery of banking services. While the amounts that participating banks pay Australia Post are commercially sensitive, the ABA recognises the Committee's interest in better understanding this arrangement. We refer the Committee to the Senate Environment and Communications Reference

⁸ Regional Banking Taskforce final report, September 2022, page 13.



Committee inquiry report into Australia Post, May 2021 (**Senate Inquiry into Australia Post**) for aggregate figures:

"The committee received evidence that Bank@Post has lifted Australia Post revenues by around \$216 million over four years since the deal with participating institutions was renegotiated in 2018."

This has also supported Australia Post's long-term sustainability which is undergoing a similar technology-led period of disruption to its business models. A recently initiated review by the Minister for Communications, the Hon Michelle Rowland MP, into modernisation of Australia Post noted that:

"[t]he average household now receives approximately one third of the number of letters each week than in 2007-08 when letter volumes peaked – down from 8.5 letters per week to 2.4."⁹

The funds that participating banks invest into Bank@Post includes a Community Representation Fee which the 2021 Senate Inquiry into Australia Post said the following in relation to:

"...the Community Representation Fee (CRF) paid by participating banks 'offset in part' Australia Post's 'continuing losses in the letters business'." (emphasis added)

Further, that these funds are being invested directly into supporting the ongoing viability of particularly Australia Post franchisees:

"According to Australia Post, the benefits of this renegotiation were not only to its profits, but also that it 'enabled Australia Post to increase payments to Licensed Post Offices and further invest in [the] Post Office network'."

The evidence of the former CEO, Ms Christine Holgate, into the important role of Bank@Post to the ongoing viability of many Australia Post outlets is also noteworthy:

"This [2018] agreement saved the Bank@Post service in around 3,000 Community Post Offices across Australia. The service was threatened with closure as it was heavily loss making. If the service had closed, the consequences would have been devastating for regional communities and many local Post Offices would have closed. These landmark agreements were the largest ever investment into the Community Post Offices from a non-government agency and gave significant recognition and importance to the Community Post Offices and the vital role they play across Australia." (emphasis added)

Reduced hours models

Some banks have adopted innovative models whereby a number of their regional branches operate at reduced hours, allowing the bank to continue delivering face-to-face services in the morning before shifting their staff to online and phone channels in the afternoon. This allows those banks to maintain their face-to-face presence in those regional areas, before then shifting to where the increasing demand for staff and services are – phone and online banking channels.

These models also allow the banks to invest in the career development of their staff by training them with new skills and provide new opportunities for progression.

Mobile and business bankers

Banks also employ mobile and business bankers who can visit customers across regional Australia at their home, businesses or farms to discuss their individual banking needs. Mobile bankers can support customers with home loans and business bankers with customers' business lending.

ATM Fee Free Agreement for First Nations communities

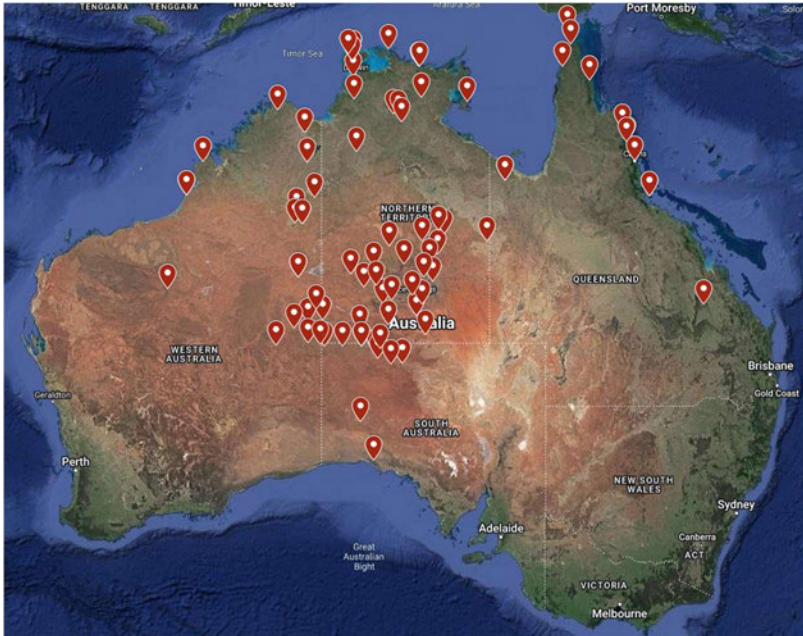
Australian banks also understand that remote First Nations customers can, as a result of historical policies, face higher barriers to accessing banking services. Under an arrangement, administered on behalf of banks by the ABA, 15 banks have obtained Australian Competition and Consumer

⁹ <https://minister.infrastructure.gov.au/rowland/media-release/consultation-begins-delivering-modernised-postal-service#:~:text=%E2%80%9CThe%20consultation%20announced%20today%20will,rural%2C%20regional%20and%20remote%20communities.>



Commission authorisation to provide fee-free ATM services through non-bank deployers in 85 remote communities.

These locations, as shown on the following map, are in remote communities in the Northern Territory, Queensland, Western Australia and South Australia that have no other banking option including Bank@Post.



In line with the banking industry's commitment to inclusive banking including for First Nations customers and in accordance with recommendation 4 of the Taskforce final report, the ABA is currently exploring the feasibility of expanding this initiative. While any expansion of the scheme will require detailed discussion and agreement of all stakeholders, including current non-bank ATM deployers, the ABA continues to work with the industry to ensure that the programme is operating as intended and delivering the intended services to customers in remote First Nations communities.

This initiative complements the dedicated First Nations call centre lines that many banks also run, as part of their ongoing commitment to supporting First Nations customers.

4. Improvements currently underway to better support banking customers

Banks have acknowledged that while digital and phone banking has improved the banking experience for many customers, there are some for whom this transition is more difficult. Accordingly, banks were pleased to participate in the Taskforce inquiry into regional branch closures. The Taskforce was initiated by the former Morrison Government in October 2021 and finalised by the Albanese Government in September 2022.

It was co-chaired by the then Assistant Treasurer, the Hon Michael Sukkar MP, and Senator for NSW, Perin Davey, and held meetings in Sydney, Orange, Mildura and Canberra. Following the 2022 election, it was augmented and finalised by the Assistant Treasurer and Minister for Financial Services, the Hon Stephen Jones MP. The Taskforce was supported by the Treasury, which released an Issues Paper in November 2021 to encourage public feedback and over 400 submissions were received.

The ABA took part in the Taskforce process that brought together banks, key stakeholders (including the Council of Small Business Organisations Australia, the Australian Chamber of Commerce and Industry, and the Australian Local Government Association) and local voices at the regional meetings. Importantly, the Taskforce's seven recommendations were developed with the banking industry in a way that ensured that they were implementable and would lead to improved customer outcomes.

To implement the Taskforce recommendations, the ABA has created a working group of banks who have been working to the Taskforce's published timeframes. Given the Committee's inquiry was



commenced prior to the mid-2023 timeframes that many of the Taskforce recommendations are due to be implemented by, the ABA and banks have not yet finalised key uplifts but can provide the Committee with the following high-level updates:

- The ABA Branch Closure Protocol (**Protocol**) is being strengthened and a new Customer Care Standard introduced (recommendation 1) with a focus on customers experiencing vulnerability (recommendation 5). External consultations on the new Protocol have been undertaken and the ABA is working to finalise these improvements by mid-2023.

For background, the Protocol details the minimum standards that banks are required to adopt when closing a branch. The Protocol is referenced in the Banking Code of Practice, which banks voluntarily agree to be bound by and include in a customer's contract. Customers have the right to enforce the contract in a court or seek remedy through the Australian Financial Complaints Authority.

- Introduction of Branch Closure Impact Assessments (recommendation 2) under which banks will publish reasons for their branch closure decision, detail alternate banking options that customers can access once a closure decision is made, and detail how local customers can make enquiries regarding their ongoing banking needs once a closure decision is announced.

The ABA notes the wording of the Taskforce's recommendations:

"...Assessments should provide clear reasons for the closure and the engagement that will occur with customers, local government and other stakeholders following the announcement of the closure" (emphasis added).

The Taskforce considered and ultimately did not recommend prior community consultation of a closure decision, in recognition that bank staff must be the first to know about the decision. This recommendation is due to be completed with the updated Protocol by mid-2023.

- The ABA and participating banks are also working with Australia Post to explore better promotion of the Bank@Post service and potential uplifts in line with recommendations 3 and 4 of the Taskforce report.
- The ABA and banks are exploring opportunities to better coordinate digital literacy support (recommendation 6) and participating in the Australian Prudential Regulation Authority review of its Points of Presence data collection (recommendation 7).

Finally, the ABA notes the similarities between the Terms of Reference of the Committee inquiry and that of the Taskforce's Terms of Reference and its seven recommendations. We encourage the Committee to build on, rather than duplicate the Taskforce's inquiry, given the proximity of the two inquiries.

There are important areas of policy work that could form the focus of the Committee's inquiries, including:

- Ensuring better access to digital infrastructure in regional communities by improving government funding mechanisms, in accordance with recommendation 4.1 of the Commission's *Advancing Prosperity* report.

The Commission recommends that the Australian Government move towards a Universal Service Guarantee for the delivery of internet services, once the market is sufficiently competitive. The Committee's consideration of how internet connectivity issues affect regional banking customers and development of options for improving digital infrastructure initiatives to improve accessibility of banking services, could be a valuable area of inquiry.

- Considering the adequacy of existing government digital education initiatives to better assist people who wish to access the myriad of services across the economy that are shifting online, including banking services. Digital skills can be transferrable meaning a banking customer's improved digital literacy can support their digital interactions in accessing online government services, and visa versa. In particular, reference should be had to the appropriateness of these initiatives for regional and remote communities, and First Nations people.