



## Australian Citizens Party

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# Why a national People's Bank is the solution to the crisis of bank branch closures

*Opening statement of Robert Barwick, Research Director, Australian Citizens Party, to the 1 December 2023 hearing of the Senate Rural and Regional Affairs Committee inquiry into bank closures in regional Australia.*

Thank you Chair and Senators. The Australian Citizens Party (ACP) appreciates the excellent work of this committee, and this opportunity to appear.

## Failed system

1. Australia's banking system fails the Australian people and the Australian economy.
  - a. The present system is exclusively private, and dominated by the Big Four banks and Macquarie, which are too powerful, too concentrated, and out of touch.
  - b. They wield extraordinary influence over the Parliament and government, including through a revolving door of executives swapping back and forth with the Treasury and regulators.
  - c. The banks make decisions solely to maximise their short-term profits, even at the risk of their own businesses, secure in the knowledge they are too big to fail, and the government and regulators will always prop them up.
  - d. For many years their actions have done enormous damage to their brands, in numerous ways, but like any oligopoly they don't care, because it doesn't matter—they control the market.
  - e. It took a royal commission to get them to even acknowledge their systemic and systematic misconduct and abuse of customers, but there's little evidence they have changed their ways.
  - f. In terms of social responsibility, they do the bare minimum legally, to extract the maximum profit financially.

## People's Bank

2. Australia therefore needs to re-establish a national People's Bank, a government-owned public bank to break the banking oligopoly and serve the community in ways the private banks won't and can't.



## Evidence from branch closures agenda

3. The latest evidence of this need comes from this Committee's inquiry into bank closures in regional Australia.
  - a. As this inquiry has visited town after town across Australia, it has clearly established that the Big Four banks have a very different idea of banking than their customers have.
  - b. They are making bigger profits than ever out of their customers, but they don't want to serve their customers.
  - c. The banks are gaslighting Australians, trying to make us believe that we are the ones who are choosing to bank differently, claiming that in closing branches *they* are simply following *our* choices.
  - d. Yet consistent testimony to this inquiry has demonstrated that the banks are trying to force, *not* follow, customers into online banking to boost the banks' bottom lines, not benefit the customers.

## Out of touch

4. The very existence of this inquiry, which has been driven by community anger at bank branch closures, shows how out of touch the banks are.
  - a. The banks do not know what their customers want, because, as they have been forced to admit, they do not consult with communities before closing branches.
  - b. In some stunning cases, the retail bank executives who made the decision to close a branch did not even consult with other sections of their own bank which serve businesses in those towns!
  - c. BankWest said the quiet part out loud in Beverly, Western Australia, when its executives explained their logic that there's no point in consulting with communities as the bankers are not going to change their minds anyway.

## Oligopolistic

5. The banks see digital technology as the way to increase *their* productivity, by saving on the costs of branches and staff, but they don't care that this is at the expense of the community's productivity.
  - a. Branch closures are very disruptive to communities, putting customers at the mercy of unreliable telecommunications technology and forcing customers to travel sometimes hundreds of kilometres to merely do the same banking they had been able to do in their town for decades.
  - b. The only way an industry can dictate to customers in this way is by operating as an oligopoly, a cartel.
  - c. Instead of competing with each other on providing the best service to their customers, the Big Four banks, which dominate 80 per cent of the banking system, only compete with each other on extracting the most profit from the least service.



## Parliament's responsibility

6. The 2004 Joint Parliamentary inquiry, "Money matters in the bush", decreed that banking is an essential service, so it is up to Parliament to ensure that Australia has a banking system that guarantees everyone has access to this essential service.
  - a. Ensuring the provision of essential banking services can no longer be left exclusively to a private market dominated by a private oligopoly.
  - b. This inquiry has demonstrated a very important truth, which is that Parliament is more powerful than the banks—if it exercises its responsibility to use its power.
  - c. The mere act of determined Senate scrutiny on branch closures has already forced banks to modify their behaviour, albeit minimally—Westpac has reversed eight branch closures, while CBA has declared a three-year moratorium on regional branch closures, a reprieve for hundreds of towns.

## Solutions

7. So how could Parliament apply permanent pressure on the banks, short of keeping this inquiry running forever? (Although it would be very effective to always have this committee visit every town and suburb where banks announce branch closures.)
  - a. One approach is through regulation that imposes a community service obligation on the banks, which would be entirely fair given the enormous public support they enjoy, including an implicit government guarantee and generous subsidies from the Reserve Bank.
  - b. The arguably more effective approach, which the Australian Citizens Party advocates, is to re-establish a national People's Bank.

## Another failed privatisation experiment

8. Australia had public Commonwealth and State banks for well over a century until they were all privatised by the end of the 1990s.
  - a. We have just lived through a quarter-century experiment of exclusively private, self-regulated banking which has been a failure for consumers and the economy.
  - b. Banking misconduct and abuse of customers led to a royal commission; banks prioritising credit into mortgages over small businesses has created serious economic imbalances, including a property bubble, overcrowded capital cities, and a crisis of unaffordable housing.
  - c. Meanwhile regional Australia has been so starved of credit that many regions are losing population and essential services.



## Campbell Report

9. It was the 1982 Campbell Financial System Inquiry Report which, fatefully, recommended the privatisation of all public banks, giving us the current financial system; the Campbell Report's recommendation reflected the private banks' complaints that competing with public banks was somehow "unfair".
  - a. Nevertheless, the Campbell Report recognised a "*commercial role of government owned banks*", which it said was two-fold: "*safety of deposits*"; and "*competition for banking business in particular areas, e.g. retail banking*".
  - b. The Campbell Report stated: "*The Committee also recognises the potential for government banks—on their own initiative—to give competitive leadership in an oligopolistic industry where vigorous competition might sometimes be lacking.*"
  - c. This competitive leadership is precisely what Australia needs in its banking system today.

## Various reasons for a public bank

10. Since the 2008 global financial crisis, the mounting problems in the Australian financial system from the lack of public banks have prompted repeated calls for public banking to be restored. Some of the reasons include:
  - a. **Financial security for consumers**—In 2009, six prominent economists called for a new financial system inquiry to examine, among other things, whether Australia needed a publicly owned entity akin to KiwiBank in New Zealand to provide safe, basic banking services.
  - b. **Cost effectiveness**—In 2015 Paul Kofman and Carsten Murawski from the Department of Finance at the University of Melbourne proposed, in response to the 2014 financial system inquiry, "the establishment of a public sector institution that provides core financial services, such as payment services, savings accounts, mortgages and other basic forms of credit, to retail customers and small- and medium-sized enterprises. We think of it as a utility that ensures cost-effective provision of basic banking services to all Australians."
  - c. **Credit for small business**—In 2017 Australian Small Business and Family Enterprise Ombudsman Kate Carnell floated the need for a government-backed small business bank to support lending to small businesses.
  - d. We can now add the **need for face-to-face branch services** as a reason for bringing back a government bank.



## Competition from a public bank works!

11. Competition from a national People's Bank would pressure the private banks to stop closing branches, and perhaps even reopen some closed branches.
12. Can we have confidence this would happen? Yes—it already has!
  - a. In 1982, the Campbell Report foreshadowed that the privatisation of the Commonwealth Bank could lead to a wave of bank branch closures.
  - b. This, of course, is exactly what happened and continues to happen.
  - c. But in 2002, Australia's Big Four banks suddenly stopped closing branches, in response to being forced to compete with a public bank.
  - d. This didn't happen in Australia, but in New Zealand, where Australia's Big Four own all the major private banks thanks to NZ also privatising its public banks in the 1980s.
  - e. NZ suffered 1,300 bank branch closures in the 1980s and 1990s, until the government established KiwiBank in 2002.
  - f. The Australian Big Four-owned banks immediately stopped closing branches, and even seven years later, Stuff.co.nz on 20 December 2009 was able to report that not one overseas-owned bank had closed a single branch in NZ since KiwiBank started in 2002.

## Benefits of national People's Bank

13. The ACP urges this Committee to recommend the Commonwealth government re-establish a full-service public retail bank, like the Commonwealth Bank before it was privatised, to provide the "competitive leadership" Australia's banking system needs. The numerous benefits of a national People's Bank include:
  - a. As stated, competition for the private banks on service, not profit;
  - b. Permanent branches communities can rely on;
  - c. Low-cost, fully secure basic transaction accounts;
  - d. Access to cash for consumers and cash banking services to small businesses;
  - e. Affordable personal and small business loans, with lending decisions made by local staff with local knowledge;
  - f. Investment in communities and infrastructure—the People's Bank's customers would know their money is helping to improve Australia;
  - g. **Potentially**, the bank could harness its innate strength as a public financial institution, backed by the wealth of the people of Australia, to also introduce long-term fixed rate mortgages of 15-30 years; and even branch into providing affordable insurance for the multitude of uninsured Australian who either cannot afford insurance or whom private insurers refuse to cover.



## Post office bank model

14. In the ACP's view, the best way to establish such a bank with the least up-front cost, but able to serve all communities immediately, is to start it through the post office network and expand from there as necessary.
  - a. This is how the Commonwealth Bank started in 1912, first in post offices then expanding to branches.
  - b. We do not recommend Australia Post be given a banking licence, but propose the government establish a stand-alone government banking corporation, managed by a board and professional banking staff, which enters into a licence agreement with Australia Post to adequately compensate post offices from the revenue that comes from retail banking services.
  - c. With over 4,000 post offices and postal outlets Australia-wide, the largest retail footprint of any single business, the public bank would become the biggest retail bank in Australia overnight.
  - d. And now that total bank branches in Australia have fallen below 4,000, through post offices the People's Bank would have more branches than all other banks combined.
  - e. With postal services in Australia also under financial pressure, and the current management of Australia Post closing post offices and lobbying to close many more, this would be a win-win arrangement that saves essential banking *and* postal services for all communities.

## Successful model

15. Public postal banks are very successful around the world.
  - a. The world's first big savings banks were postal banks, established in the UK and Japan in the 19th century.
  - b. Japan Post Bank is still one of the world's biggest and most successful banks, credited as the engine for Japan's miraculous post-WWII economic recovery.
  - c. KiwiBank started as a postal bank.
  - d. SwissPost has become a very successful banking competitor.
  - e. La Banque Postale started in 2006 in France, but is already the 11th largest bank in the EU and the largest lender to local government in France.





## Not a threat to community-owned banks

16. A final word on community-owned banks, which, unlike the Big Four, actually do compete on service for their customers.
  - a. The Community Owned Banking Association has expressed opposition to a public bank, and some people argue that community-owned banks should be encouraged to fill the vacuum left by the Big Four banks.
  - b. However, while community-owned banks could replace Big Four branches in some towns, they would never be capable of replacing all the thousands of branches closed by the Big Four, in the way a public bank could, especially the postal bank model described.
  - c. And contrary to their fears, a public bank would not automatically threaten the business model of community-owned banks, because it would not actively try to steal customers away from other banks.
  - d. A public bank would be there to serve the people who have been abandoned and let down by other banks, which describes the Big Four banks, not the community-owned banks.
  - e. The ACP would argue that the economies of scale provided by a public postal bank, such as in the national distribution of cash, would directly benefit community-owned banks, for which moving cash is in their top three branch expenses.
  - f. The benefits of more local lending and investment from the public bank would also flow through to the community-owned banks, from local economic growth generating more business for all banks.
  - g. In fact, as local town and regional economies that have been withering under current banking conditions start to grow again from the increased flow of credit from the public bank, just watch—we predict we'll see the Big Four banks pile into regional Australia again, to capitalise on the increased opportunities.

## Conclusion

17. The ACP appeals to this committee not to see the crisis of bank branch closures as like an emergency requiring a band-aid to staunch the bleeding, but as an opportunity to recommend visionary policies that can transform the potential of regional Australia, and indeed all of Australia.
  - a. Remember the inspiring testimony of Mrs Barb Smallwood in Carnamah, Western Australia, when she described what her community could be if only a bank had the vision to invest in the town.
  - b. We salute the residents and leaders of Carnamah, of Coober Pedy in South Australia, of Junee in New South Wales, and those other towns whose fight to save their communities led to this inquiry—they fought because they know their potential is much greater than what short-sighted, small-minded, profit-hungry major bank executives in Sydney and Melbourne are capable of seeing.
  - c. Please don't let those brave communities down.

Thank you.

