Bank closures in regional Australia

Submission to the Senate Standing Committees on Rural and Regional Affairs and Transport

Introduction

Banks are saving millions by bank closures, from staff costs, premises costs, overheads and cash transportation and handling. Plus, removal of ATMs. Staff costs are a huge cost element in banking generally, digital is much cheaper for them (despite the service failures and cybercrime risks).

They account for it in a particular way which may superficially downplay the true savings (its an accounting trick). And they hold the produce revenue centrally rather than attributing it to the branch. So, when it suits them, they can "prove" branches is a BIG overhead, yet also when it suits them magically can claim no real savings. Truth is branch closures is a strategy to save costs, and explained away by online migration, which is not happening uniformly in regional areas.

Key Points

Branch closures are occurring at pace, as financial services firms seek to manage down their costs in a lower growth, higher interest rate environment. In this submission, we will make some high-level points, as well as provide some important primary research to underscore the disadvantage regional communities are exposed to by the banks actions, and their alibi despite the fact that research shows removal of physical banking services from a community leads to a fall in economic activity, and social wellbeing.

Digital Finance Analytics (DFA) is an independent research firm which runs rolling household surveys on their financial footprint and expectations. There has been run continuously since 2001, and we have been tracking the channel migration which has occurred over that time. We undertook some additional research in the past 3 months to better understand the issues surrounding branch closures.

In addition, DFA researches and analyses financial services trends locally and internationally. The demise of branch banking is a factor seen in many markets, thanks to the rise of digital, but, the purported "customer led" migration is far from the truth. In practice firms are incentivising employees to force people into digital, and as a result, they will subsequently lose their own jobs.

Cash handling is expensive for financial services firms so they are continually looking for opportunities to reduce the volume of transactions, especially coins. Pushing people to use online services mitigates that cost. In addition, banks have high staff costs – so they seek to reduce that cost to bolster profits. In addition, it is important to understand the internal accounting used by the banks tend to load all costs (and overheads) on the branch network, while profits from products are taken centrally. This distorts the economics of branches. Some smaller community banks who use different accounting techniques are able to run branches profitably, because of a different accounting treatment. In other words, the "branch" financial losses are largely confected to justify their drive to bolster overall profits.

In regional areas the digital infrastructure is less available, so more households and businesses are reliant in cash, and cash transactions. Small businesses in regional areas in particular, require access to cash services, yet are often now faced with long travel times (sometimes hundreds of kilometres) simply to access these essential services. While Bank@Post can provide a sub-set of services as a replacement, the truth is the range of services is reduced, it can be more expensive for customers and there are strict cash limits on transactions which stops businesses from trading. The Committee should ask Australia Post for details about the services, and their economics, both of which are severely limited.

Data has been provided by the banks showing the service variation and limitations after closure. As this information is confidential, the Committee should ask the banks to provide this material.

When regional communities lose small businesses, the economic future of the community is a risk. The Committee should examine some of the international experience (for example from the UK) showing the impact of branch removals.

Some customers are willing and able to use digital for some transactions, but many who sign up to online banking, when available, still chose to access branches on occasions. So, the bank's use of digital banking sign-up does not necessarily translate to not using branches on occasions. In addition, recent disasters such as the recent floods, and earlier bushfires, highlight the risks of being digitally dependant – when the power goes out, all digital services stop – and cash is the fallback – unless of course there are no physical outlets available!

Finally, banks in Australia get both formal and informal Government support, yet they appear to evade any community service obligation as a trade-off. Indeed, Government prefers a hands-off approach from entities who make large political donations. The Banks have received nearly $200 billion in cheap funding via the TFF and other Government support, and yet they are not meeting customer expectations, their banking oaths, or frankly community expectations.

The Bankers Association simply passes it off as progress – convenient for them. And The Regional Task Force, which was used as a pre-text was stacked with bankers, and their supporters, and just did not adequately reflect the submission made, nor community feedback. It was a stich-up job.

It is my belief that Communities need to continue to have access to local banking services, face to face, and the Banks should be given a community service obligation as part of their licencing conditions. Bank profitability remains strong, and they have the capacity to support communities, especially in the regions. It's the right thing to do.

The alternative, which is worthy of consideration is a Public Bank (parallel would be KiwiBank in New Zealand), which would provide on the ground services for the community, providing competition to commercial sector, and becoming a catalyst for the provision of those essential services which are still required (and which will remain relevant for many years ahead).

Primary Research

We completed primary research over recent months, with questions centring on the use of branches, consumer experiences around branches, and specifically comparative data between regional, suburban and city communities. This was based on a statistically accurate 0.5% sample of households and business across the country (n=52,000).

We find that those very regional communities which need branches the most are the segment of the population which are being targeted the hardest by banks. Regional communities have less access to alternatives including access to branches and cash, and digital alternatives and are often left in the lurch when branches close, and there is greater societal damage done by closures. Canberra is an outlier!

	Regional	Suburban	Average City	Canberra
In Past Year How Many Bank Branch Visits (ex. ATMs)	72.4	32.3	5.6	3.2
In Past Year How Many ATM Visits	11.5	31.5	56.8	31.5
Average Size Of Cash Withdrawal	$285	$147	$121	$178
Proportion SME's In Branch Visits	55.4%	32.7%	19.8%	3.50%
Proportion Respondents Signed Up For Online Banking	71.6%	85.9%	92.5%	97.80%
Proportion Regular Online Banking User (more than 2 a week)	27.8%	56.8%	62.6%	78.60%
Proportion DIGITAL ONLY in past 12 months	3.5%	31.7%	56.4%	71.30%
Proportion With Digital Connectivity Issues Past 12 Months	71.5%	32.8%	14.3%	3.40%
Proportion Interested In Regional Matters	98.3%	65.8%	34.9%	8.90%
Proportion Lived In A Regional Area At Any Time	100.0%	61.6%	21.7%	17.90%
Proportion Inconvenienced By Branch Closures Past Year	78.5%	34.7%	19.8%	2.30%

This is a video commentary on the results

We also examined the regional differences compared with Suburban and City, relating to online behaviour and channel substitution.

	Regional	Suburban	Central
Used A Branch In Past Year	38%	21%	18%
Of Those Who Used A Branch			
Apply For A loan	6%	22%	25%
Paid In Cash	36%	24%	22%
Withdraw Cash	42%	36%	29%
Customer Support	17%	19%	25%
Has Your Local Branch Reduced Hours Or Closed In Past 12 Months?			
Reduced Hours	32%	22%	13%
Closed Branch (Others Remain)	18%	12%	7%
Removed ATM	33%	27%	14%
Left No Service In Community	13%	2%	0%
No Change	6%	37%	67%
Where Service Was Withdrawn			
I got adequate notce	3%	16%	46%
I have online In Substitution	4%	16%	28%
I got no notice	52%	31%	18%
I am forced tor travel SIGNIFICANTLY Now to Access Bank Services	40%	38%	9%

This is a video commentary on this research.

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