CHAPTER 2

BANK BRANCH CLOSURES IN RURAL, REGIONAL AND REMOTE AUSTRALIA

2.1 There is no doubt that over the past decade there has been a fundamental shift in the nature of banking and the way people obtain financial advice.[1] According to two financial commentators:

> The net effect has been a transformation in the Australian financial system from a relatively closed, oligopolistic structure in the 1950s and 1960s, based predominantly on traditional bank intermediation, to a more open and competitive system offering a much wider variety of services from an array of different providers.[2]

2.2 One of the most telling signs of change in the Australian banking industry is the decline in the number of bank branches.[3] This chapter examines statistics on the number of bank branches in Australia and the rate of closure over recent years focusing particularly on regional areas. It then looks at the reasons for the closures.

The trend in bank branch closures

2.3 Bank branch closures have occurred across the nation in both metropolitan and regional areas. The period between 1993 and 2000 saw a substantial reduction in branches by the major banks. At June 1993 there were 7,064 bank branches but within eight years this number had fallen by almost one-third to 4,789.[4]

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1 The literature on this matter is extensive. See for example, 'The dollars and sense of bank consolidation, bank mergers and the Trade Practices Act', ACCC Journal No. 40, p. 14; Professor Evan Jones, 'Rural Finance in Australia: A Troubled History', *Rural Society,* vol. 12, no. 2, p. 160; Malcolm Edey and Brian Gray, *The Evolving Structure of the Australian Financial System,* Reserve Bank of Australia, 1996; Siobhan McDonnell and Neil Westbury, *Giving Credit where it's due*: *The delivery of banking and financial services to Indigenous Australians in rural and remote areas*, CAEPR, Discussion Paper, No. 218/2001, June 2001.

2 Malcolm Edey and Brian Gray, *The Evolving Structure of the Australian Financial System*, Reserve Bank of Australia, 1996.

3 David Bell, *Committee Hansard,* 14 November 2002, p. 75, Professor Jon Altman, *Committee Hansard*, 14 November 2002, p. 79. See also Chris Connolly and Khaldoun Hajaj, *Small Business Banking: Issues Paper,* Financial Services Consumer Policy Centre, University of New South Wales, April 2002, p. 27.

4 Table 2.1. See also Reserve Bank of Australia, 'Bank Branch Trends in Australia and Overseas', *Reserve Bank of Australia Bulletin*, November 1996, p. 1; Submission by the Office of Regulation Review to the Prices Surveillance Authority's Public Inquiry into Fees and Charges Imposed on Retail Transaction Accounts by Banks and Other Financial Institutions, March 1995, p. 8 and APRA, Points of Presence, Summary of Branches, 30 June 2001.

2.4 The following table traces the steady decline in the number of bank branches since 1993 in both metropolitan and non-metropolitan areas.[5]

Table 2.1—Number of Bank Branches in Australia, 1990–2001[6]

Year	Metropolitan Branches		Non-metropolitan Branches		Total	
	Branches	Variation	Branches	Variation	Branches	Variation
1990	4028		2893		6921	
1991	4049	+ 21	2868	- 25	6917	- 4
1992	4032	- 17	2888	+ 20	6920	+ 3
1993	4118	+ 86	2946	+ 58	7064	+ 144
1994	4075	- 43	2672	- 274	6747	- 317
1995	3990	- 85	2665	- 7	6655	- 92
1996	3879	- 111	2629	- 36	6508	- 147
1997	3499	- 380	2622	- 7	6121	- 387
1998	3190	- 309	2425	- 197	5615	- 506
1999	3047	- 143	2311	- 114	5358	- 257
2000	2838	- 209	2165	- 146	5003	- 355
2001					4789	- 214
					4843	54
					4858	15

5 See also Reserve Bank of Australia, *Bulletin,* CO5 Points of Access to the Australian Payments System, November 2002, Table S22. See also Chris Connolly and Khaldoun Hajaj, *Small Business Banking: Issues Paper*, Financial Services Consumer Policy Centre, the University of New South Wales, April 2002, p. 27.

6 The table is based on statistics taken from Table 2.1, the House of Representatives Standing Committee on Economics, Finance and Public Administration, *Regional Banking Services, Money too far away,* March 1999; Reserve Bank of Australia, *Bulletin*, September 1999, table S29; and APRA, Points of Presence, Summary and changes from 2001 to 2002, http://www.apra.gov.au/satistics/pop/ARIABreakdowns and Movements.xls, 2003.

2.5 The above statistics show that the fall in the number of branches is most significant in metropolitan areas. Even so, the loss in non-metropolitan areas has been substantial. Of the more than 2,000 bank branches that have closed since June 1993 well over 750 were in non-metropolitan areas. Furthermore, the loss of full banking services as provided by a bank branch can be felt most keenly in rural, regional and remote Australia where in some cases the closure of a branch has left communities without a banking facility in their district.

2.6 The Committee particularly notes the escalation in branch closures in non-metropolitan areas between 1997 and 2001. The most recent statistics on bank branch numbers taken from APRA's records, which cannot be compared with the previous Reserve Bank figures because of the different nature of the database, show a tapering off in the rate of decline. Overall, there was a gain of 54 bank branches between 2001 and 2002 and a further increase of 15 branches to June 2003.[7] During this period, however, the figures show only a slight increase of 5 branches in remote and very remote areas over this two-year period.[8] Despite this improvement, the legacy from over 750 branch closures in country Australia endures.

Table 2.2—Banks—Branch level of Service, 2001, 2002 and 2003[9]

Points of Presence Category comparing 2001, 2002 and 2003						
Industry	*ARIA Category*	Branch level of service				
Banks		2001	2002	Variation	2003	Variation
	Highly Accessible	3289	3292	3	3324	32
	Accessible	811	846	35	833	-13
	Moderately Accessible	433	458	25	455	-3
	Remote	132	136	4	144	8
	Very Remote	103	104	1	102	-2
	(blank)	11	7	-4	0	-7
	Total	**4789**	**4843**	**54**	**4858**	**15**

7 APRA figures show that the increase in the number of branches can be attributed to the expanding network of Bendigo Bank Ltd branches. The number of branches has grown from 180 in 2001, to 329 in 2002 to a further 353 by June 2003 (see Table 4.1, p. 47).

8 Although the fall in bank branch numbers seems to have been arrested, there was a decline in the overall number of building societies and credit union branches over the same period. This matter will be taken up in chapter 8

9 APRA, Points of Presence Database, as at December 2003, ARIA Breakdowns and Movements. The term 'blank' in the table means that institutions did not know where to classify the branch. See explanation given by Mr Earl Burgess, APRA, *Committee Hansard*, 25 February 2003, p. 185. The ARIA classification is a classification of postcodes in Australia.

2.7 Although the available statistics show the declining number of bank branches, they do not give an indication of the number of communities that are without a local bank branch. The National Farmers Federation (NFF) estimated in 1998 that there were around 600 communities in rural and regional Australia without financial institutions. Statistics presented by Dr John Taylor, the Australian National University, suggest that the number of communities without access to a banking facility is higher. He noted that there are 854 discrete communities of Indigenous Australians with a population fewer than 500 that do not have a store or an administrative building where facilities such as EFTPOS and ATMs could be housed.[10]

The influence of globalisation on the banking industry

2.8 People associated with the industry attribute the decline in bank branches to four major factors—public policy reforms especially financial deregulation; technological progress; changes in consumer demand; and demographic movements that have taken place over the last two decades.[11] Before considering these factors, the Committee discusses the influence of the global marketplace on Australian businesses.

2.9 Globalisation refers to the 'international integration of markets and the increasing interdependence of economies of different nations'.[12] The transformation taking place in the banking industry in Australia is part of an overall change in the business landscape determined in large part by globalisation which has reshaped and continues to affect the way Australian companies conduct business. Globalisation is a dynamic process and developments in the international commercial world will continue to exert pressure on Australian enterprises.[13]

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10 *Committee Hansard*, 14 November 2002, p. 82. See chapter 11 for a more detailed discussion on Indigenous communities in remote Australia. Note also the findings of Mr Chris Sidoti, former Human Rights Commissioner, who stated that the Commission had heard that 45 shires across Western Australia have no direct access to a bank branch. The combined population of those shires is over 89,000 people. 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/humanrights/hr_older_aus_bush.html (29 October 2002).

11 Christopher Kent and Guy Debelle, *Trends in the Australian Banking System: Implications for Financial System Stability and Monetary Policy*, Research Discussion Paper, Reserve Bank of Australia, March 1999, p. 2. See also Gary Banks, Chairman, Productivity Commission, 'Meeting the challenge of change in regional Australia', an address to *Renaissance of the Regions*, Institute of Public Administration Australia, Melbourne, 9 November 2000, p. 9.

12 Commonwealth of Australia, *Financial System Inquiry Final Report,* March 1997, p. 122 (The Wallis Report).

13 In 1997, the Wallis Report stated: 'Australia has actively and irreversibly embraced globalisation…While globalisation of wholesale markets is already well advanced, most retail financial markets have scarcely been affected. It is clear, however, that the new technologies and techniques which will stimulate change are now imminent.' Commonwealth of Australia, *Financial System Inquiry Final Report,* March 1997, pp. 6–7.

2.10 The ANZ explained the influence of world trends on Australia's banking industry:

> Banks raise their capital in a global market, competing not only with other financial institutions but also with all other companies. These changes, which were not confined to Australia but occurred around the world, resulted in cost pressures and performance requirements that made it necessary for banks to change the way they operated. These changes included some 'unbundling' of cross subsidies and a shift to 'user pays', heavy investment in more convenient and cheaper electronic delivery channels, a reduction in the number of more expensive branches and automation and reengineering of many processes to make them more efficient.[14]

2.11 Globalisation certainly places greater demands on Australian businesses. Although it promises economic and social rewards for those that take up the challenges, others may struggle to understand, accept and adjust to the changes. It is natural for some to resist change. Mr Leon Davis, Chairman, Westpac, accepts that the 'nostalgia felt by many for the good old days of a controlled currency, protected manufacturers, cross subsidisation of infrastructure and services, centralised wage fixing etc' is understandable.[15] But globalisation is not going away and Australian businesses cannot quarantine themselves from developments in the international commercial world.

The context of branch closures

2.12 The causes of bank branch closures are complex and are influenced by both the global market, including world-wide developments in telecommunications, as well as domestic circumstances. Although deregulation, technological advances, consumer demands and population movements are treated in the following section as distinct causes of change in the banking industry, they often interact providing further impetus for innovation. For example, advances in technology in particular have presented consumers with a smorgasbord of options in how to conduct their banking affairs.

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14 *Submission* 121, p. 3.

15 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 2001. Mr Graeme Samuel, also referred to the old world of protected markets which 'engendered feelings of comfort and certainty'. Graeme Samuel, 'A Changing Australia: The Business and Social Imperatives', a presentation to the Institute of Chartered Accountants in Australia, Business Forum 2001, 21 May 2001, p. 4. John Unkles also wrote of many people who still hold onto 'a sense of nostalgia about the banks' personal service in the "good old days" and their widespread presence in rural communities'. John Unkles, 'Show me the money…and the old-fashioned service!', *Journal of Banking and Financial Services,* February 2001, p. 3.

This development has fed higher consumer expectations which in turn create a fertile environment that fosters greater innovation in technology.[16]

2.13 The following section examines the four major influences on the delivery of banking services in Australia:

- changes in public policy notably deregulation;
- technological developments;
- consumer preferences; and
- demographic trends.

Deregulation

2.14 Public policy since the 1980s has meant that Australian businesses are competing for customers against the best enterprises in the world. Before the 1980s, banks in Australia were protected from competition through regulation which placed controls on activities such as bank interest rates, asset structures and the role of new lending by banks.[17] Banks were regulated in terms of:

> the types of products they were allowed to offer and the prices they were allowed to charge. Credit was rationed through direct controls, and banks competed for business through the provision of extra services such as extensive branch networks, rather than on price.[18]

2.15 Under this highly regulated regime, banks built up a vast network of branches throughout the country. According to Mr Tom Valentine and Mr Guy Ford, the banks' over-extension in the regulated environment and technological developments had made physical bank outlets less necessary and led to a situation of 'disequilibrium'.[19]

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16 *Submission* 117, p. 2. The ABA has consistently argued that 'the decline in bank branch numbers is a consequence of competitive forces, demographic movements and changes in consumer demand that emerged in the 1980s and 1990s'. It submits branch closures have been part of the evolutionary process; that competition has driven the development of a wide range of alternative banking facilities and this level of innovation is likely to continue.

17 See for example, 'Bank Fees in Australia', *Reserve Bank of Australia Bulletin*, June 1999, p. 1. Carolyn Currie, *The Wallis Inquiry: is there any empirical support*?, http://afbc.banking.unsw.edu.auAFBC10/3/HTML/INDEX.HTM p. 9, (23 December 2002).

18 Christopher Kent and Guy Debelle, *Trends in the Australian Banking System: Implications for Financial System Stability and Monetary Policy*, Research Discussion Paper, Reserve Bank of Australia, March 1999, p. 11.

19 Tom Valentine and Guy Ford. 'Bank Mergers in the Australian Financial System—Should the Pillars be Pulled Down?', *Economic Papers*, 1 December 2001, p. 49. Also under this regulated regime the practice of using interest margins to cross subsidise retail payment services was common place. The Reserve Bank explained that for much of Australia's post-Second World War history 'many banking services were provided free or at very low cost as they were cross-subsidised by the wide interest margins banks earned on their intermediation. This was most evident during the period in which bank interest rates were heavily regulated as such regulation

2.16 Deregulation of Australia's financial services industry was intended, among other things, to remove inefficiencies, improve performance and promote greater competition in the banking industry.[20]

Financial regulatory policy

2.17 Financial deregulation in Australia has been a gradual process with the early regulatory changes to Australia's financial systems introduced in the 1980s. The major initiatives included measures such as floating the Australian dollar in 1983; the licensing of foreign banks; the elimination of controls over interest rate and lending interests; the removal of limits on the number of new banks that could be established; and the privatisation of the Commonwealth Bank.[21] Mr Leon Davis, Chairman, Westpac Corporation, explained that:

> The reform process allowed Australia to become internationally competitive, in part by reducing the role of Government. For the first time business values were allowed to take centre stage and the role of many of the institutions and systems that had underpinned the previous protected mixed economy, diminished accordingly.[22]

2.18 As deregulation started to take effect banks, the traditional providers of financial services, found themselves under pressure to increase efficiency and improve performance. In this quest for reduced costs and better efficiency, banks trimmed the number of their branches. As noted earlier under the highly regulated system, banks had built up an extensive network of branches. But it was not until the mid-1990s that banks, seeking to reduce costs by improving operating efficiency, looked seriously at pruning branch and staff numbers.

2.19 In 1997, the Financial System Inquiry Report (the Wallis Report) concluded that substantial cost savings were possible if financial institutions rationalised their distribution system so that high cost delivery channels such as bank branches undergo

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ruled out competition via interest rates. The main avenue of competition left for banks was to provide payments and other services at low, or no, charge to customers in order to attract deposits'. 'Bank fees in Australia'; *Reserve Bank of Australia Bulletin*, June 1999, pp. 1–2.

20 Reserve Bank of Australia, *Payments System in Australia,* prepared by the Reserve Bank of Australia and the Committee on Payment and Settlement Systems of the central banks of the Group of Ten countries, Basel, June 1999, p. 5.

21 Dr David Morgan, 'Securing Australia's Economic Potential', *Higgins Memorial Lecture,* address by Dr David Morgan, Economic Society of Australia, Canberra, 10 February 1999, p. 3. Australian Bankers' Association, *Selected events in the Evolution of the Australian Financial System*, http://www.bankers.asn.au/ABA/adminpages/AdminViewAnArticle.asp?ArticleID=101 (21 October 2003).

22 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 2001.

consolidation.[23] But the process of cutting back bank branches was already in train by the time the Wallis inquiry published its findings. Statistics show that the number of bank branch closures rose steeply during 1996–1997, with more than 380 branches closing their doors, and reached a peak in 1997–1998 with over 500 closures.[24]

2.20 In the face of on-going competitive pressure, banks have continued to rationalise branch networks.[25] Mr John McFarlane, CEO, ANZ Banking Group, explained simply that 'we had too many branches, not just us but all of the banks in Australia. And it was quite natural for us to get down to a core holding of branches.'[26]

2.21 According to the ANZ:

> The ability of banks to provide traditional face-to-face branch banking services to smaller communities in both metropolitan and non-metropolitan locations has been eroded, particularly over the past decade, by the competition banks have faced following deregulation of the industry which began in 1983 with the floating of the Australian dollar.[27]

2.22 The ANZ also noted that deregulation coincided with 'a technological revolution that enabled specialist suppliers of financial services, many of whom operated without the expense of nation-wide branch networks, to undercut banks'.[28] Moreover, consumers were becoming more sophisticated, computer literate and comfortable with the newer electronic delivery channels.

2.23 Most commentators concur with this view about the effects of technological advances and place technology alongside deregulation as a major influence behind branch closures. In their view, the reduction in bank branch networks in large measure reflected pressures for branch rationalisation driven by technological progress and a move away from the earlier over-expansion which had been used to attract customers in the heavily regulated environment.[29]

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23 Commonwealth of Australia, *Financial System Inquiry Final Report*, March 1997, pp. 201–12. The Report stated that it appears as though 'Australian financial intermediaries have too many branches', p. 210.

24 See Table 2.1 and also Reserve Bank of Australia. C05 Points of Access to the Australian Payments System.

25 See KPMG, *Small Business Banking in Australia,* A Research Report, February 2002, p. 7.

26 John McFarlane, interview, 'Business Sunday', 8 November 1998.

27 *Submission* 121, p. 3.

28 ibid.

29 Christopher Kent and Guy Debelle, *Trends in the Australian Banking System: Implications for Financial System Stability and Monetary Policy*, Research Discussion Paper, Reserve Bank of Australia, March 1999, p. 16.

Technological developments

2.24 The growing use of electronic banking from EFTPOS to the Internet has transformed the way people carry out their banking. Technological change presents the consumer with a growing range of options in how to conduct their most basic banking transactions.

2.25 In 1996, Mr William Ferguson, a Banker, observed:

> From only a few years ago, when bank passbooks were slipped down a chute for signature verification, when account balances were depicted in neat handwriting and bank managers decided whether to grant loans on the basis of the length of time applicants had been clients, not only of the bank, but of particular branches, we have come a long way.[30]

2.26 Since then, improvements in information technology have dramatically influenced the provision of financial services. The use of ATMs and EFTPOS has increased substantially and telephone banking and the internet are now accepted as part of everyday banking. The pace of such change is rapid and drives the growing demand for electronic trading. Irrevocably Australia's economy is undergoing profound change driven by technological innovations which have led to a reduction in the cost of providing some financial services and made readily available a range of new products and delivery systems. According to Professor Ian Harper:

> Like their counterparts around the world, Australia's major banks are working through the most significant technological revolution in their history. They simultaneously face the lowering of natural and legislative barriers to competition from offshore as well as the burgeoning impact of financial markets offering substitutes for their traditional balance sheet products, e.g., managed funds in place of term deposits.[31]

2.27 Technological innovations are proving popular with customers who are taking up new service channels with enthusiasm. This leads to the third major force behind

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30 William Ferguson, 'A Banker's Perspective on the Future of the Financial System' Reserve Bank of Australia, 1996, p. 199. Despite the high rate of technological progress during the early 1990s, the Wallis Inquiry in 1997 saw the necessity for financial markets to demonstrate commitment and vision to introduce electronic commerce. It suggested that technology driven innovation was profoundly reshaping the financial services industry and that 'The development of networks and improved communications infrastructure is lowering the cost of financial services activities substantially increasing capabilities and choice. It is introducing a range of new participants…and challenging the role of traditional suppliers and intermediaries.' Commonwealth of Australia, *Financial System Inquiry Final Report*, March 1997, p. 117. See also Carolyn Currie, *The Wallis Inquiry: is there any empirical support?,* University of Technology, Sydney, p. 7, http://afbc.banking.unsw.edu.au/AFBC10/3/HTML/index07.html (23 December 2002).

31 Ian R. Harper, Professorial Fellow, Melbourne Business School and Financial Services Consultant, Blake Dawson Waldron, *Globalisation and the Australian Financial System,* http://www.blakedawsonwaldron.com/areas/fsr/papers/globilisation.htm p. 3 of 5, (30 December 2002).

bank closure—a shift in consumer demands. Again this cannot be considered in isolation.

Changes in consumer preferences

2.28 In 1996, William Ferguson argued that the main push for change would come from consumers. He stated:

> It will be the services that the end-users want, the products they like, the style of delivery which is most convenient to them and whether the relationship is transaction-specific or long-term, which will primarily dictate how the provider responds; not, by and large, the provider determining what the customer needs.[32]

2.29 The major banks have no doubts that consumer choice is a significant force shaping their decisions to close branches. In citing the reasons behind the closure of 56 of its regional branches, the Australian National Bank (the National) explained that the transformation of the regional and rural network is being undertaken as a result of 'rapidly changing customer preferences and a noticeable decline in the number of over the counter transactions'. It suggested that customers have made known that they want a convenient banking service that suits their needs.

Growing consumer demand for electronic banking

2.30 The National's transaction data shows that rural customers, including farmers, are moving towards electronic forms of banking, particularly in relation to internet, telephone banking and EFTPOS services.[33] The National noted that since 1999, the number of 'over the counter' transactions has dropped from 25 per cent of its total transaction volume to less than 9 per cent. In relation to rural customers, 'over the counter' transactions now make up only 12 per cent of its total rural transaction volume.[34]

2.31 In line with the National's experience, Westpac maintained that more than 90 per cent of banking transactions are undertaken outside of branches. Moreover, it noted that customer preference for easier and more convenient means of doing their banking was encouraging further innovation. It stated:

> More than ever, our customers are telling us they want to be able to access ATM, EFTPOS, Telephone and Internet banking services quickly, easily and cheaply.[35]

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32 William Ferguson, 'A Banker's Perspective on the Future of the Financial System', Reserve Bank of Australia, 1996, p. 195.

33 *Submission* 118, p. 15.

34 *Submission* 118, p. 2. See also National, Media Release, 4 April 2002, *National to change its regional and rural network—4 April 2002,* http://www.national.com.au/About_Us/0,,7812,00.html (30 December 2002).

35 *Submission* 110, p. 8.

2.32 Consistent with the trends identified by individual banks, the Australian Bankers' Association (ABA) maintained that over the last decade bank customers have moved from undertaking only 10 per cent of their transactions outside a bank branch, to now conducting about 90 per cent of their transactions outside the branch.[36]

2.33 These figures register an unmistakable message from consumers that they prefer, and have come to expect, the ease and convenience of transacting basic banking services through the newer service channels. Further, they indicate that electronic banking is likely to grow in popularity. As noted by Mr Robert Joss, who works in the banking industry:

> Having the ability to deposit a cheque and withdraw funds at an ATM at 11.00 pm rather than between 10.00 am and 3.00 pm at a branch is a new, and obviously more convenient way of facilitating payments between parties.[37]

2.34 Although technology offers the prospect of much greater convenience and lower transaction costs, Mr Joss observed that there is a downside to this development:

> What banks cannot afford to do is to keep the old branch network for facilitating payments and simply add on the new technology. New players in the market will invest only in the new technology and their costs will be commensurately lower. For banks to be able to compete they must somehow substitute the new for the old, to arrive at a much better balance of costs and consumer choices. Customers are not prepared to pay the cost of operating both the old and new technologies.[38]

2.35 Clearly, over the last decade banks have responded to the major shift in consumers wanting convenience, better value and more choice regarding their financial services.[39] The new technologies are leaving old practices in their traces. The economic pressure on banks is to win market share, maintain profitability and minimise risks and to do so means that they must remain at the forefront of technological advances. One of the costs, however, is in reduced over-the-counter service.

Banks investing in new technology

2.36 While consumer demand is driving the introduction of new technology, the impetus for electronic banking is also coming from the banking industry which appreciates the cost savings it offers.

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36 *Submission* 117, p. 4.

37 Robert Joss, 'Developments in the Business of Banking', Reserve Bank of Australia, 1996, pp. 190–191.

38 Robert Joss, 'Developments in the Business of Banking', Reserve Bank of Australia, 1996, pp. 190–191.

39 *Submission* 117, p. 2.

2.37 The ABA pointed out that face-to-face services are expensive to deliver because of the substantial costs in hiring and training teller staff, with renting premises and providing adequate security associated with managing cash deposits. It argued that the switch to electronic banking means that maintaining multiple facilities has become less viable in small towns. Put simply, the emergence of electronic banking as a popular carrier of transactions creates difficulties for some small towns to sustain over-the-counter banking facilities.[40]

Summary

2.38 ATMs, phone banking, EFTPOS machines and Internet banking offer easy access to many banking transactions. The growing popularity with customers together with the advantage of lower costs has secured electronic banking a prominent place in the delivery of financial services. Realising the value in providing customers with electronic banking facilities, banks have invested in the new technologies such as telephone, Internet and a range of electronic bill payment systems.[41]

2.39 The substantial investment in new technologies through the 1980s and 1990s and which continues today, has enabled customers to bank 24 hours per day, 7 days a week and from the comfort of their own home or workplace. Most witnesses and financial commentators accept that there is no going back—the trend toward even greater innovation in electronic banking is irreversible. The trade-off, however, is the loss of bank branches offering traditional over-the-counter services.

Demographics

2.40 Many attribute the withdrawal of banking services in country areas to population shifts away from regional Australia. Most statistics show the tendency for Australia's population to concentrate in major cities, coastal areas and the larger regional towns. This trend is consistent with developments that have occurred since the middle of last century.[42]

2.41 The Australian Bureau of Statistics (ABS) maintains that in 1911, 43 per cent of Australians lived in rural areas. This proportion fell steadily until 1976 when only 14 per cent of the population lived in rural areas. From this period until sometime during the first half of the 1990s the population in country Australia began to grow slightly. The 1996 census, however, indicated that the population in rural areas as a proportion of the total population had again started to fall.[43]

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40 *Submission* 117, p. 13.

41 *Submission* 117, p. 6.

42 *Submission* 117, p. 2.

43 Year Book Australia 2002, population distribution, http://libas1.parl.net/abs/abs@nsf/Lookup/FE3FA39A5BF5AA5AC256B350010B (3 January 2003).

2.42 The population in some regional areas of Australia is shrinking not only as a proportion to the total population but in real terms. The ABS noted that 'some areas of Australia have experienced significant population decline in recent years'. While some losses have occurred in established suburbs within capital cities and major urban centres, it argues that the fastest population decline has occurred in rural areas. Most of this decline has been caused by net migration loss[44] and is associated with technological, social and economic changes and industry restructuring in local economies.[45]

The drift in population to larger regional centres and the 'sponge city' effect

2.43 There are also discernable patterns to population movements across inland regional Australia. While the population in regional Australia is in general decline as a proportion to metropolitan Australia, some areas are defying this trend. Indeed some regional centres and coastal towns are among the fastest growing areas in Australia.[46] The Interim Report of the Steering Committee on the Summit on Regional Australia found that economic growth has been uneven in regional Australia. Some regions have experienced high growth as a result of diversifying their economic base, whereas others—still heavily reliant on traditional rural sectors—have not shared in the nation's economic growth over the past few years.[47]

2.44 The ABS recorded that a number of regional centres gained population in the decade ending June 2001. Centres such as Maitland, and Queanbeyan in New South Wales, Greater Geelong, Greater Bendigo and Ballarat in Victoria, Cairns in Queensland, Port Lincoln in South Australia and Albany in Western Australia

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44 According to an ABARE study 'the number of people who migrated from inland and remote regions during 1991–96 exceeded those who migrated to these regions. In remote regions, net migration loss in the five years to 1996 represented 8 per cent of the population in these regions in 1991'. Jayne Garnaut, Peter Connell, Ray Lindsay and Veronica Rodriguez *Country Australia; Influences on Employment and Population Growth,* ABARE Research Report 01.1, 2001, p. 6.

45 Year Book Australia 2002, population distribution, http://libas1.parl.net/abs/abs@nsf/Lookup/FE3FA39A5BF5AA5AC256B350010B (3 January 2003). For example the populations of Jabiru and Tennant Creek declined between 1996 and 2001 by 4.4 % and Tennant 3.7 % per year respectively due to the closure of mines in the area. The significant losses in population of Coolgardie (down 1,400 people at an average rate of -5.3 % per year), Leonora (down 790 people or -6.3 % per year) and Dundas (down 410 people or -5.5 % per year) are also attributed to changes in employment conditions in the mining industry. ABS, *Regional Population Growth,* 1991 to 2001. Catalogue No. 3218.0, Canberra, July 2002, p. 33.

46 See for example, Paul Collits, 'Small Town Decline and Survival: Trends, Success Factors and Policy Issues', First National Conference on the Future of Australia's Country Towns, The Regional Institute Ltd, http://www.regional.org.au/au/countrytowns/global/collits.htm (13 January 2003).

47 The Interim Report of the Steering Committee on the Summit on Regional Australia, *Economic and Business Development in Regional Australia*, April 2000, p. 3 of 6, http://www,dotrs.gov.au/regional/summit/outcomes/committee/report/development.htm (29 October 2002).

experienced growth in the five years to June 2001, as they did in the previous five-year period.[48]

2.45 Mr Bernard Salt, a demographer, demonstrated this unevenness in population growth in country Australia by comparing Hervey Bay and Junee. He wrote:

> In 1971 both had about 5,000 people. In 2000 Junee still had 5,000 but Hervey Bay is now 45,000. Hervey Bay is the most remarkable town on the Australian continent in terms of its population growth—because of a value shift in the nation in the 1980s. It was more than retirement and tourism, it was a new strain of tourism that emerged—eco-tourism, based on Fraser Island, and whale-watching.[49]

2.46 The ABS also noted the tendency for some regional centres to experience growth in population at the expense of some of the smaller outlying towns. People from surrounding regions were gravitating to these centres because of factors such as agricultural restructuring and mechanisation, resulting in larger and fewer farms and lower demand for farm workers. Furthermore, improvements in transport and communications, which allow industries and services in the regional centre to cater to a wide area, contributed to the growth of these centres.[50]

2.47 It cited Mildura which grew by 3,100 people and Dubbo by 1,900 during the 1994–99 period as examples of where the decline in employment and services in outlying areas had encouraged migration to the inland regional centres. Most Statistical Local Areas (SLAs) surrounding these centres experienced population decline.[51]

2.48 Mr Salt also commented on this 'sponge city' effect where larger regional centres have soaked up the population loss from the farm amalgamations in surrounding small and remote towns.[52] He used the example of Wagga in the NSW Riverina where the number of Waggarians rose by 12,416 or 28 per cent in 22 years to

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48 Australian Bureau of Statistics, *Regional Population Growth, Australia and New Zealand,* Catalogue no. 3218.0, Canberra, 2002 http://www.abs.gov.au/ausstats/abs@.nsf'Lookup/NT0000B60E (30 October 2002).

49 Bernard Salt, 'Emerging Australian demographic trends', *On Line Opinion,* 15 May 2001, http://www.onlineopinion.com.au/2001/May01/Salt.htm (13 January 2003).

50 Australian Bureau of Statistics, *Australian Social trends 2000,* Population—Population Distribution: Regional populations: growth and decline, p. 4 of 8.

51 Australian Bureau of Statistics, *Australian Social trends 2000*, Population—Population Distribution: Regional populations: growth and decline. Year Book Australia 2002, population distribution, http://libas1.parl.net/abs/abs@nsf/Lookup/FE3FA39A5BF5AA5AC256B350010B (3 January 2003).

52 The Productivity Commission observed this 'sponge city' phenomenon in its 1999 report, Productivity Commission, *Impact of Competition Policy Reforms on Rural and Regional Australia,* Inquiry Report, Report No. 8, 8 September 1999, p. xxv. Bernard Salt cited regional centres such as Dubbo and Wagga Wagga in NSW, Horsham in Victoria and Narrogin in Western Australia.

reach 56,566 in June 1998. He goes on to observe, however, that communities within a 100km radius of Wagga fared differently in the 22 years to June 1998 with population losses between 4 and 29 per cent.[53]

2.49 According to Mr Salt, rural 'losers' are scattered throughout all states and some of the losses are associated with changed mining practices (west coast), and with changes in local infrastructure (downsizing Peterborough railway workshops).[54] He concluded, however, that 'for the most part, the areas of consistent and significant loss are attached to the Australian wheatbelt'. His analysis showed that in such areas the pressure for farm aggregation was greatest, and the impact of the sponge effects of larger cities was most severe.[55]

Population shifts and bank branch closures

2.50 The banks draw a direct connection between population trends and the demand for their services. The ABA argued that the thinning population in many towns means that the 'economic case for maintaining service levels delivered in-person in each location has also declined'.[56]

2.51 Dr Gordon Forth also found a close relationship between population loss in rural areas and the level of banking services available to small towns. He wrote:

> Though the loss of services, such as the closure of the local bank, cinema or pharmacy, are highly significant in explaining small town decline, they are essentially the consequence of both population loss and reduced demand for essential and non-essential services.[57]

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53 Bernard Salt, 'People erosion hits small-town wheat lands', the *Australian,* 25 February 2000. He also noted that 'perhaps more importantly, the number of people added to Wagga over this period is spread across all age groups in a way that aligns with the average for Australia as a whole'. Similarly, he called Dubbo a de facto capital city whose population continues to grow while outlying towns such as Warren experience a drop in population. Bernard Salt, 'Emerging Australian demographic trends'*, On Line Opinion,* 15 May 2001, http://www.onlineopinion.com.au/2001/May01/Salt.htm

54 Bernard Salt, 'People erosion hits small-town wheat lands', the *Australian,* 25 February 2000. He provided the following statistics—the Shire of Windouran near Hay in the Riverina lost 36 per cent of its population; the Shire of Buloke in the Victorian Wimmera lost 34 per cent; the Shire of Isisford in south-west Queensland lost 35 per cent; and the District Council of Peterborough in South Australia lost 31 per cent; all between 1976 and 1998.

55 ibid.

56 *Submission* 117, p. 4. In research for the Hawker Inquiry (1999) into regional banking services, the ABA commissioned work from KPMG that showed major demographic changes occurring in regional Australia, whereby small towns were getting smaller and larger regional towns and cities were getting larger. The research also showed a demographic shift to coastal areas.

57 Dr Gordon Forth, Director, Centre for Regional Development, Deakin University, Warrnambool Victoria, *Following the Yellow Brick Road and the Future of Australia's Declining Country Towns,* p. 5 of 10, http://www.regional.org.au/au/countrytowns/ideas/forth.htm (11 February 2003).

2.52 A recent study conducted by the National Centre for Social Applications of GIS, University of Adelaide, supported the contention that changing demographics in some country areas have seriously undermined the ability of banks to sustain the level of services that the traditional branch had delivered. It asserted:

> The reality is that both the demographics of many non-metropolitan areas no longer are sufficient to support the same level of service provision as the past and improved mobility and information technology make it possible to access more distant services more readily than in the past.[58]

2.53 The ANZ concurred with this view. It explained that the higher representation of non-metropolitan areas in the change in face-to-face banking service levels largely reflects more significant demographic changes, which have been occurring in these areas over time.[59]

Regional shopping hubs and smaller towns

2.54 Not only are people moving to regional centres but those living in outlying towns are drawn to major centres to conduct their financial affairs.

2.55 An ABARE survey found that there was a significant tendency by farmers to use banking services in regional hubs rather than in their local towns. In 1990 an estimated 53 per cent of farmers reported using financial services in regional centres with 36 per cent using their local town. By 2000, however, 60 per cent of farmers were using banking services in their regional centres with only 27 per cent continuing to use their local town. The study concluded that this outcome was consistent with the closure of branches in small towns in this period.[60]

2.56 The Tamworth City Council added weight to the ABARE findings that residents from the smaller outlying towns are inclined to conduct business in the regional centres. It noted that ‘it is a common fact that citizens from our neighbouring communities namely:

Parry Shire	population 11,837
Manilla Shire	population 3,256
Barraba Shire	population 2,169
Bingara Shire	population 1,982
Gunnedah Shire	population 12,480

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58 *Background Paper for the Parliamentary Inquiry into the Level of Banking and Financial Services in Rural and Remote Australia,* October 2002, p. 29, Appendix B to *Submission* 117.

59 *Submission* 121, p. 5. See also, Australian Bureau of Statistics 2002 Year Book Australia, p. 84.

60 Australian Bureau of Agricultural and Resource Economics (ABARE), *Australian Farm Surveys, Report 2001*, Canberra, p. 37.

Quirindi Shire	population 4,752
Nundle Shire	population 1,359
Walcha Shire	population 3,200

commute to Tamworth for business, medical, schooling, family, social and personal reasons. It is proper to assume that when these citizens do visit Tamworth (or other centres such as Armidale and Inverell), they would plan to carry out personal or business banking activities and any other financial services required as part of their trip'.[61]

2.57 The evidence clearly suggests that local residents of small country towns are tending to bypass their town to travel to the major centres to shop due in part to a loss of services in their local communities and also their desire to access a broader range of products.

2.58 Rural areas where larger regional centres are growing at the expense of smaller towns, pose problems for service providers who face difficult decisions about commercial and social obligations to those in smaller towns. The loss of consumers to the larger regional centres erodes the customer base of banks in the smaller communities making their economic viability even more precarious.

Questioning the nexus between population trends and branch closures

2.59 It should be noted that while the evidence indicates that there is a strong link between population growth and the presence of a bank branch, some submissions argued otherwise. The Surf Coast Shire Council noted that, unlike many other rural centres that have lost their banks, Winchelsea has been steadily growing. It suggested that with the foreshadowed upgrading of the Princes Highway the outlook for Winchelsea is for continued growth—and yet no major bank has the commitment or foresight to provide this essential service to the town (other than ATM facilities through the local post office).[62]

2.60 The Manilla Shire Council and the Barossa Council together with other local councils expressed the same bewilderment at banks closing branches in regions of economic or population growth. The Barossa Council noted simply 'there could not be a more successful area in the state and perhaps in the country, and yet the branches are gone'.[63]

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61 *Submission* 93, p. 2.

62 *Submission* 9, p. 2.

63 *Submission* 91, p. 2 and Councillor David Lykke, *Committee Hansard*, 13 March 2003, p. 419. See also evidence by Ms Kerry Yu, Municipal Association of Victoria, *Committee Hansard*, 26 February 2003, p. 284 who concluded, 'It is not just out in Hindmarsh, in the backblocks where the population is declining and ageing that the banks are pulling out'.

2.61 The Summerland Credit Union Limited observed a similar occurrence. It stated that over the past ten years at least 26 bank branches had closed within the Richmond and Tweed Valleys, with services being severely reduced in many others. It claimed that this is happening, despite the region's continuing strong growth, as 'the "seachange" phenomena continues to see metropolitan babyboomers and others seek a better lifestyle in regional areas'.[64] From its perspective, it was clear that:

> …the banks have different views as to what constitutes a profitable branch and have not given a lot of thought to the changing dynamic of certain areas. For example, the Tweed Valley has been identified as the fastest growing region within NSW (if not the whole of Australia) and yet the banks have heavily reduced their presence throughout the valley.[65]

2.62 Clearly banks have withdrawn or reduced their services because of what they perceive as a less profitable economic environment in particular localities. While population trends are a reliable indicator of the economic health of a community, banks, when deciding to either close or open a branch, consider the overall strength of demand for their services and the likely return on their investment. For example, John McFarlane, CEO, ANZ explained that they were more likely to consider opening branches in the more rapidly growing areas such as the Gold Coast which he regarded as a 'tremendous growth opportunity'.[66]

2.63 In other words, there are some areas in regional Australia that will attract banks to their locality while others offer little commercial incentive for banks to stay. This is an assessment made by individual banks—they may not always be right—and their interpretation of profitability may well differ from those of their customers.

Conclusion

2.64 Since 1994 there has been a steady decline in the number of bank branches. Deregulation, technological progress, shifts in consumer demands and demographic trends have contributed to the pressure on banks to trim their branch networks. They now operate in a highly competitive environment shaped in large measure by the global market. This competitive market has changed the face of banking as financial service providers implement ways to increase efficiency, improve performance and reduce costs. With the help of advances in technology and shifts in consumer preferences, banks are now able to offer consumers a range of services. The tradeoff, however, has been the rationalisation of bank branches. Some localities in regional, rural and remote areas simply can not attract or retain their local branch. From the banks' point of view the volume of business is not sufficiently profitable and they have taken the commercial decision to withdraw their services.

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64 *Submission* 116, p. 1.

65 *Submission* 116, p. 2.

66 Transcript, 'Business Sunday', 27 October 2002.

2.65 The following section seeks to understand the effects of branch closures on the community. It identifies and describes the consequences of such actions on the people living and working in country areas where banks have withdrawn or downgraded their services.