

CHAPTER 17

COMMUNITY SERVICE OBLIGATIONS

Public expectations of financial services providers

17.1 One of the main challenges confronting financial service providers is satisfying the public expectations placed on them to meet the needs of the community they serve. Numerous commentators have drawn a distinction between normal commercial enterprises and those providing banking or financial services. They regard financial institutions as having a privileged place in society which carries added responsibilities.

17.2 This perception of financial service providers as occupying a special position of responsibility and trust in the community goes to the heart of the debate about the role of financial service providers, their obligations to shareholders and to customers, and to the community more broadly. A number of community representatives adhere strongly to the view that institutions such as banks are duty bound to ensure that they provide adequate services to all. For example in 2000, the then President of the Local Government Association of New South Wales acknowledged that banking like the rest of society had moved on and that old-fashioned practices must remain in the past. He went on to assert, however, that this development does not justify the abandonment of any sense of community obligation by the banks. He submitted:

Banks are not just like any other business. They are essential utilities. People cannot function in modern society without adequate access to the banking system. They are an integral component of society's institutional infrastructure. This has traditionally given banks a certain degree of status and privilege, and this has survived deregulation to a large extent. This conveys an obligation to the community.¹

17.3 The City of Ballarat expressed a view typical of those in many submissions. It maintained that banks, like any profit-seeking enterprise, are required to deliver a reasonable and sustainable profit for shareholders but they also have a responsibility to the communities they serve.² To the same effect, the Municipal Association of Victoria argued that banking institutions have been 'afforded a privileged status' in the Australian community and should be required 'to provide a reasonable coverage of community requirements'.³

1 'President's comment' in *Local Government Focus*, February 2000, <http://www.loc-gov-focus.aus.net/2000/February/presgr.htm> (23 December 2002).

2 *Submission 76*, p. 2. Swan Hill Rural City Council submitted that due to the protected environment in which Australian banks operate, they need 'to recognise and take practical steps to implement socially responsible policies for their customers and staff'. *Submission 13*, p. 1.

3 *Submission 114*, p. 4.

The banks' awareness of community expectations

17.4 The banking industry is aware of such community expectations. Dr David Morgan CEO, Westpac Corporation, said in a speech in August 2000:

Businesses that handle people's money and with it their well being are not like businesses that sell running shoes or soft drinks. When people entrust their money to someone else, they expect to be recognised and respected.⁴

17.5 Mr Frank Cicutto, CEO of the National, acknowledged that public irritation with banks stems from the banks' inability to balance their need to modernise against community expectations of minimum service levels. He noted that banking is a fundamentally important service, and pricing and access must meet the needs of every member of the community. According to Mr Cicutto, the banks are not able to satisfy all people and some believe that they are not receiving the service to which they are entitled. He explained:

The dilemma we face is this...do we restrict modernisation to ensure uniformity of service standards for all...or do we provide different levels of service based on a capacity to pay and utilise?⁵

17.6 Facing the same quandary, the ANZ maintained that the issue for them is how to reconcile the economic imperative of making an adequate return on capital in the current context with the obligations it believes it has to the communities in which it operates as well as to the broader community.⁶

Financial institutions and community obligations

17.7 Although the banks accept that they have a social responsibility and claim that they have taken measures to fulfil this obligation, there is a widely-held view that they have deserted the rural and remote areas of Australia primarily because of the desire to

4 Dr David Morgan, Chief Executive Officer, Westpac Banking Corporation, Committee for Economic Development of Australia, Sydney, 21 August 2000, p. 7. Mr Leon A. Davis also commented on the community's high expectations of banks. He stated 'bankers are conscious of their social responsibility. At Westpac it is an integral part of the way we do business and we do know that we need to focus on the needs of Australians in regional Australia. We at Westpac believe that unless financial institutions expand their view of what constitutes socially responsible behaviour they will soon lag global best practice for their industry. We do not intend to lag best practice, if only because to do so invites re-regulation with its associated costs and inefficiencies.' Mr 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.

5 Frank Cicutto, Managing Director & Chief Executive Officer, National Australia Bank, Communitylink Speech Notes, Melbourne, 24 October 2000.

6 *Submission* 121, p. 3; See also CPS Credit Union, *Submission* 59, p. 3.

maximise profits. At the moment they do not enjoy the confidence and support of Australian consumers.⁷

17.8 The Uniting Church Synod of South Australia submitted that the ‘policies of successive governments have given the financial sector scope to avoid social responsibility’. In its opinion, this has resulted in ‘the erosion of the position of banks in the Australian community and increased burden on those sectors of the community that are least equipped to bear the social costs’. It believes that the policies of consecutive governments in relation to the financial sector have precipitated market failure which calls for government intervention.⁸ Taking a similar view, Mr Anthony Beck from the Financial Services Sector Union asserted that:

...going back over the last ten years, the major banks have been allowed to acquire and aggregate all the regional and state banks and create a market in their own image and, in oligopolistic fashion, set the price, dominate the market and decide where they will or will not provide a service.⁹

17.9 Mr Peter Emery, Central Local Government Region of South Australia Inc, raised an interesting aspect of the privatisation of banks. He noted:

In this state we used to have two government owned banks. That used to be one way in which we as a community could influence what happened in banking. The State Bank used to help cooperatives and all sorts of things. We do not have that particular lever anymore. We have decided that we do not want the government to be involved in even minor ways in these sorts of entities. We have cut ourselves off from one major source of influence, which I personally think is unfortunate—but that is perhaps an old-fashioned view.¹⁰

17.10 Clearly a number of witnesses felt that firstly banks are not listening to their concerns and secondly that the customer has lost a say in how these major institutions conduct themselves in their communities. Further, that governments in stepping away

7 Comments on this matter can be found in many sources including newspaper reports and academic and professional journals. The Lockhart Shire Council submitted that ‘Banks appear to be driven solely by bottom line issues and have no regard for the social structure or stability of towns or suburbs, *Submission 25*, p. 2. Mr Graeme Samuel also referred to the perception in many rural communities ‘that banks don’t care about them, and that new services were only offered under pressure.’ Graeme Samuel, President, National Competition Council, ‘A Changing Australia: The Business and Social Imperatives’, presentation to the Institute of Chartered Accountants in Australia, Business Forum 2001, Melbourne, 21 May 2001, p. 9. See also Australian Bureau of Agricultural and Resources Economics (ABARE), *Australian Farm Surveys, Report 2001*, May 2001, p. 39, which found that farmers perceived that banking services had worsened since 1990. William Phillips, former banker, wrote that there is a strong perception the Australian banks have put shareholders first. *Journal of Banking and Financial Services*, August 2002, p. 10.

8 *Submission 84*, p. 14.

9 *Committee Hansard*, 26 February 2003, p 267.

10 *Committee Hansard*, 13 March 2003, p. 431.

from direct involvement in the banking industry have left consumers to look after their own interests. The witnesses believe that banks do have a responsibility to the community but are not being made to meet that obligation.

Minimum standards expected of financial institutions

17.11 The Committee heard a range of opinions on the extent to which banks have a responsibility to the community. Many submissions held the view that banking services should be considered essential—a necessity of everyday life.¹¹ The following section attempts to define what should be regarded as an essential service and to determine what submissions mean when they refer to minimum standards.

17.12 While a number of submissions and commentators wrote in general terms about the social obligations on banks to provide adequate banking services, others were prepared to quantify their understanding of minimum standards. The Holroyd City Council maintained that because the provision of financial and banking services is an essential service, banks must provide affordable face-to-face banking services.¹² Mr Beck asserted that ‘A transactional capacity is a fundamental human right, in our view, or a civilian right. It is like access to power or water’.¹³ Along similar lines, Mr Chris Connolly and Mr Khaldoun Hajaj maintained that the bank account is the most basic and the most important financial service for most Australians. They argue that ‘the provision of a bank account is essential for receiving pay and benefits and making and receiving payments’. In summary, they submitted:

Having a bank account is no longer a mere convenience—it is a prerequisite for engaging in the economic process.¹⁴

17.13 The notion of equity also figured prominently in the argument for improved services to country Australia. The Local Government Association of Tasmania stated simply:

11 The East Gippsland Shire Council was one of the many submissions that regarded banking and financial services as an important part of the totality of services to rural communities, *Submission 75*, p. 2. The Crookwell Shire Council and the Goulburn Shire Council maintained that banking services are considered to be an important base service for communities, *Submission 57* and *Submission 41*, p. 1. The Local Government Association of Tasmania asserted that it is imperative that a minimum standard of financial service is provided to Tasmania’s communities, *Submission 43*, p. 1. The Gunning Shire Council echoed these words, *Submission 56*, p. 1 and see also *Submission 75*, p. 5.

12 *Submission 18*, p. 3.

13 *Committee Hansard*, 26 February 2003, p. 270.

14 Chris Connolly and Khaldoun Hajaj, *Financial Services and Social Exclusion*, Financial Services Consumer Policy Centre, University of New South Wales, March 2001, p. 4. The Municipal Association of Victoria maintained that banking Institutions should be required to provide at least a reasonable coverage of community requirements so that no branch should be closed without ensuring that there are alternatives available which provide for after hours depositing of money, ready cashing facilities for cheques, cash withdrawal facilities with easy access. The Municipal Association of Victoria, *Submission 114*, p. 4.

The provision of alternative banking and financial services solutions for bank branch closures fails the concept of equity of services for all Australians. The alternative arrangements are simply not adequate to meet the needs of the community on an everyday basis.¹⁵

17.14 Similarly the Swan Hill Rural City Council noted that ‘a key social consideration is equity of access to banking services, particularly for people living in regional Australia’.¹⁶ The Yallaroι Shire Council and the East Gippsland Shire Council also referred to the issue of social equity and the entitlement of rural communities to the same banking and financial services as metropolitan and larger regional areas.¹⁷

Committee view

17.15 The Committee believes that banking and financial service providers should strive to deliver the same level and quality of service to country Australia as they provide to metropolitan areas. It accepts that in some cases this objective cannot be achieved on a commercially viable basis. Nonetheless, the Committee believes that access to a basic banking service is an essential service—that all Australians should have affordable and ready access to a deposit account that receives funds and can be used to make payments.

17.16 In communities where it is commercially unsustainable for banks to provide face-to-face banking services, the Committee believes that the banking industry has an obligation to take all reasonable measures to ensure that consumers can access their accounts through alternative service channels. In the Committee’s view this obligation extends to:

- working with and providing assistance to communities to find satisfactory solutions to their banking problems;
- ensuring that the facilities substituting for the traditional branch service are appropriate and affordable for the residents of the community and provide a safe, secure and reliable service;
- providing the education and training necessary for consumers to use the alternative means of accessing their accounts effectively and confidently; and
- ensuring that bank practices such as charges and fees and interest rates on loans do not discriminate against people in regional, rural and remote Australia.

Community Service Obligation

17.17 Having identified the minimum standards required of the banking industry, the question arises about how they can be achieved. A number of participants to the

15 *Submission 44*, p. [5].

16 *Submission 13*, p. 1.

17 *Submission 75*, p. 5 and *Submission 23*, p. 1.

inquiry wrote in general terms about imposing a social charter or community service obligations on financial institutions.¹⁸ The submission from the Council of the City of Ballarat was among a number arguing that banks ‘must embrace an ethical approach to their dealings with customers’. It stated that ‘this is not only an appreciation of the customer’s rights, but an acceptance of a duty to the customer’.¹⁹ It supported the idea of a social contract and maintained:

By recognising that ethical business is also good business, the financial services sector will strengthen its relationship to the customer, not weaken it to the point where there is no understanding of the value of a non-nationalised financial services sector.²⁰

Imposing a community service obligation

17.18 While a number of witnesses suggested that banks should observe minimum standards, others were more certain in their approach to the adoption and implementation of a social charter by banks and advocated enforceable community service obligations. They wanted firm and direct action taken to compel financial institutions to be responsible. The Holroyd City Council believed that because the provision of accessible and affordable financial and banking services is crucial to the viability of all local communities it should be a community service obligation imposed on the banking and finance industry.²¹

17.19 The Manilla Shire Council agreed with this view. It maintained that the banks were not meeting the unique and specific needs of the people living in its district and must be forced to meet their obligations to the communities they serve.²² It stated that ‘once again it is obvious that more regulation regarding the banking sector from the Federal Government is necessary—especially regarding the banking and financial services that are offered (or not offered) in the rural area of the Manilla Shire Council’.²³

17.20 The Council of the City of Ballarat, the Narrandera Shire Council and the Lockhart Shire Council supported the idea of imposing a social charter on banks. They

18 For example, the Winton Shire Council believed that there is ‘a need for traditional banking services at present and for the foreseeable future, while infrastructure needs are addressed, and to allow generational adaptation to significant technology change’. It recommended that some sort of community service obligation for the banking sector, with a requirement across the sector to ensure that traditional banking service needs are met. *Submission 27*, p. 2.

19 *Submission 76*, p. 2.

20 *Submission 76*, p. 2.

21 *Submission 18*, p. 2.

22 *Submission 91*, pp. 2–3.

23 *ibid.*

wanted some way to require the banks to accept a greater degree of social responsibility.²⁴

Licensing requirement

17.21 A number of community representatives proposed that the licensing system be used as the mechanism to enforce social obligations. Councillor Peter Woods was of the opinion that the responsibility to ensure that banks fulfil their obligation to the community really belongs to the Federal Government which could easily achieve the required level of community service obligation by embedding it as a banking licence requirement.²⁵

17.22 The Finance Sector Union of Australia adopted a similar approach. It suggested that Australia's banks will not behave in a socially responsible way unless forced to by legislation and therefore recommended that the Government introduce legislation to impose social obligations on Australia's banks.²⁶ Mr Anthony Beck asserted:

...having a banking licence...is a very particular authority and privilege to have in the Australian economy. With that comes certain responsibilities. The industry is regulated in a way that demonstrates that it has a particular place in the smooth functioning of the Australian economy. It has a whole range of privileges and, we say, comes with very high returns for shareholders, executives and directors. But there must also be some responsibility attached to it and we simply cannot see, through the Banking Act or the Trade Practices Act, any meaningful, effective capability for rural communities and the people that I represent to actually make the banks accountable in any way.²⁷

17.23 The Holroyd City Council, the Macedon Ranges Shire Council, the Cabonne Council, and the Tamworth City Council also advocated imposing community service obligations on banks as a licensing condition or through legislation to ensure that they honour their social obligation to small rural communities.²⁸ Some wanted even stronger action.

Stronger government intervention

17.24 The Uniting Church believed that it would be appropriate for government to regulate the financial sector to ensure it delivers services that meet an appropriate level of social responsibility. It proposed that the Government pursue a range of

24 *Submission 76*, p. 2; *Submission 36*, p. 1; *Submission 25*, p. 2.

25 Councillor Peter Woods, President Local Government Association of NSW, *Focus*, February 2000, <http://www.loc-govfocus.aus.net/2000/february/presgr.htm> (23 December 2002).

26 *Submission 69*, p. 11.

27 *Committee Hansard*, 26 February 2003, p. 269.

28 *Submission 18*, p. 3; *Submission 54*, p. 2; *Submission 85*, p. [2] and *Submission 93*, p. 3.

measures such as: the establishment of a publicly owned bank similar to the original Commonwealth Bank; cease guarantees for deposits to profit-oriented banks; and issue a compulsory code of conduct for banks.²⁹ It suggested that the code include 'the expectation that banks would negotiate amongst themselves to leave a branch operating in rural townships according to a framework of criteria which would take account of population size and geographical isolation from other services'.³⁰

17.25 The Shire of Kellerberrin pointed to the unprecedented profit being made by banks and asked why they should not be required to have a certain proportion of their branches located in rural and regional areas in Australia.³¹ Another submission recommended that all institutions that conduct 'banking' business be required to contribute to a pool that would be used to establish, service and maintain ATM facilities in all towns with a permanent population in excess of 100. Such ATMs would accept cards from all participating banks.³²

17.26 As stated earlier, the Committee holds the view that there should be no impediment to an Australian holding a transaction account and being able to deposit and withdraw from that account with ease of access and without undue expense. The Committee has put forward a number of recommendations in this report to ensure that customers have access to adequate banking services; are well informed about alternative ways of banking and have the level of education and training necessary to use banking and financial services effectively and confidently. Furthermore, it has made recommendations about ensuring that people, including older Australians and those with a disability, have easier and safer access to equipment.

17.27 In making these recommendations, the Committee has not considered it necessary that the changes proposed should be enforceable under legislation. While it is mindful of the weaknesses in industry self-regulation, the Committee would first like to see the standards clearly articulated in the industry's code of practice and adopted by the financial sector industry. In some cases, for example with EFTPOS, ATMs, telephone banking and internet banking, industry standards have been formulated.

17.28 Second, the Committee would like to see the vigilant monitoring of the practices of financial institutions and their observance of the various undertakings detailed in the Committee's recommendations. It would prefer an independent oversight body to monitor and report on the behaviour of banks to ensure they are meeting their obligations. But rather than involve ASIC or ACCC in the process at this stage, the Committee believes that as a start this task could be undertaken by the Australian Bankers' Association keeping in mind the option to transfer this responsibility to an independent agency should the ABA fall short of expectations.

29 *Submission 84*, p. 14.

30 *Submission 84*, p. 14.

31 *Submission 52*, p. 2.

32 Robin Borton, *Submission 46*, p. 2.

The Committee notes here the establishment of the Financial Consumer Agency of Canada (see paragraphs 17.59–17.61).

17.29 No mention was made during the course of the inquiry on the part taken by the Banking and Financial Services Ombudsman in ensuring that people living in regional, rural and remote Australia have access to adequate banking services. The role of the Ombudsman is ‘to provide an accessible, independent dispute resolution service to individual and small business customers of financial services providers’. The main emphasis appears to be on settling claims involving a financial loss of less than \$150,000.³³

17.30 The Committee believes that the role of the Banking and Financial Services Ombudsman should not be ignored in any consideration about which agency should have the responsibility to monitor the conduct of banks in meeting the banking and financial services needs of the community. It may well be that the jurisdiction of the Ombudsman should be expanded or made more explicit to incorporate a much broader range of consumer interest such as ensuring affordable and ready access to financial services.

17.31 The Committee notes that the current banking code of practice requires the ABA to establish, and for the signatories to the code to support a forum, for the exchange of views on banking issues and the effectiveness of this code. The forum is to include consumer, small business and banking industry representatives.³⁴

Recommendation 29

The Committee recommends that the forum established under the banking code of practice, which comprises consumer, small business and banking industry representatives, meet to consider and report publicly on the jurisdiction of the Banking and Financial Services Ombudsman and whether it should be broadened to examine complaints about the difficulties encountered by consumers in accessing banking services.

Recommendation 30

Rather than suggest the development and imposition of community service obligations, the Committee has recommended a number of amendments to the current Banking Code of Practice which would in effect set down minimum standards of behaviour expected of the banks. The Committee recommends that the banking industry move quickly to incorporate them in its code of practice.

33 The Australian Banking Industry Ombudsman, *Jurisdiction*, <http://www.abio.org.au/ABIOWeb/ABIOWebSite.nsf/Level1Docs/B8092D217D3432> ... (12 September 2003) and the Australian Banking Industry Ombudsman, *Personal information about third parties to disputes* <http://www.abio.org.au> (12 September 2003).

34 Australian Bankers' Association, *Code of Banking Practice*, para 5.3. August 2002.

The Committee recommends that while the banking industry is considering amendments to the Banking Code of Practice, the Australian Government provide further impetus to this process by consulting with all sectors of the banking industry on progress toward improving the industry's code of practice.

The Committee recommends that should progress falter on the banking industry improving its code of practice, the Government take a stronger stand by considering imposing community service obligations on ADIs with an independent regulatory body to monitor and report breaches of the obligations.

Access to finance and financial advice

17.32 The report has focused mainly on the availability of basic banking services. The provision of financial services is also an important matter but one which has been overshadowed by the more immediate concerns with the provision of basic transactional services. A number of submissions raised this broader and important issue of the provision of financial services such as financial advice and lending. The City of Ballarat noted:

Whilst people want to withdraw and deposit money, pay bills and transfer funds, they also want advice. Traditionally the bank was not just a place to do business, but a place that was involved in the welfare of the community, not only as a local employer, but as an adviser to the community.³⁵

17.33 ACCORD urged the Committee to pay attention to the needs, level and types of financial services being provided to business and community enterprises in rural and remote areas, and focus its recommendations on addressing these service needs.³⁶

The banks as invigorators and sustainers of social capital

17.34 The provision of financial services includes not only access to advice but to finance. The report has found that individuals and businesses in areas of regional, rural and remote Australia do not have the same opportunities as those in metropolitan areas to obtain finance.³⁷ The problem of access to finance, particularly for local businesses, was evident in Indigenous communities where a number of community representatives made clear that there is a funding gap.³⁸ The following section looks more closely at the involvement of banks in providing venture or seed capital to areas that have trouble attracting investment.

17.35 On the matter of encouraging local business and enterprise capacity, ACCORD submitted that, it is necessary that business, including social or community enterprises, have access to finance. It referred to the difficulties facing small business

35 *Submission 76*, p. 2.

36 *Submission 80*, p. 1.

37 See for example, Chapter 3, paragraphs 3.42–3.51 and Chapter 16, paragraphs 16.62–16.70.

38 Chapter 16, paragraphs 16.62–16.70.

and social enterprises in accessing finance because of ‘lending and collateral requirements, lack of institutional understanding of their businesses and decreasing financial services’.³⁹

17.36 In its opinion, limited access to venture capital is a particular problem for regional businesses. It found that those regional businesses that have grown are still disadvantaged in comparison with their metropolitan counterparts, particularly in the areas of access to finance and business support.⁴⁰ Some local councils supported this view regarding the lack of access to investment capital in regional, rural and remote areas (see chapter 3, paragraphs 3.47–3.51 and chapter 16, paragraphs 16.61–16.70). The Council of the City of Ballarat summarised their main argument when it submitted that ‘in the pursuit of reduced costs, increased profits and dividends to shareholders, and maximum return on investment, the financial services sector has lost sight of its role as an invigorator and sustainer of social capital’.⁴¹

17.37 ACCORD suggested that the Government should encourage improved access to financial services for regional businesses and fund further development of alternative equity markets.⁴² It could promote greater understanding in financial markets of regional opportunities and confidence in pursuing regional investment.⁴³

17.38 Before any steps can be taken to address the problem of access to finance in rural and remote districts, there needs to be a comprehensive understanding of the needs and potential of business in these areas and the role that financial institutions have, or could have, in promoting economic development. At the moment, there is simply insufficient information available on the lending practices of individual banks in specific communities and the contribution they make to the economic regeneration of underdeveloped areas.

17.39 In 1999, the Productivity Commission saw a greater role for governments in helping to overcome information gaps about prospects for investment and

39 *Submission 80*, p. 2.

40 The Interim Report of the Steering Committee on the Summit on Regional Australia, p. 3 of 6, <http://www.dotrs.gov.au/regional/summit/outcomes/committee/report/development.htm> (29 October 2002).

41 *Submission 76*, p. 2.

42 The Committee notes that government grants were made to assist in the establishment of the Newcastle Stock Exchange and the Bendigo Stock Exchange which opened their doors for trading in 2000.

43 The Interim Report of the Steering Committee on the Summit on Regional Australia, p. 5 of 6, Economic and Business Development in Regional Communities <http://www.dotrs.gov.au/regional/summit/outcomes/committee/report/development.htm> (29 October 2002).

employment, facilitating self-help initiatives, removing impediments to development and improving policy coordination.⁴⁴

17.40 Taking up this matter of the quality of information, ACCORD argued that the capacity for accurate and relevant business and government planning is limited by the absence of small area and regional data on the economic characteristics (size, assets and employment) of businesses and enterprises. It maintained that business and government planning would also be assisted by the availability of information on loans and general services provided by banks and other financial institutions to enterprises in regional areas or particular post codes.⁴⁵ As a consequence it recommended that:

greater government resources be devoted to collecting information about businesses and financial information at the local and regional level and from banks and other financial institutions regarding loans and equity provided to small business and regional enterprises.⁴⁶

17.41 Similarly, the Australian Chamber of Commerce and Industry has highlighted the serious deficiencies in the information available to assist communities and businesses plan for their economic future. It stated:

In all of the information and analysis published on regional development there has been little available data that look specifically at regional business performance and at what influences regional business activity.⁴⁷

17.42 Anecdotal evidence to the Committee suggests that the market has failed to deliver to small business in country Australia with a few exceptions such as the agribusiness sector. Further, that market-based solutions alone are unlikely to address all such failures. However, the lack of data on bank lending practices and the potential markets for small business in regional Australia presents a major difficulty for the Committee to draw firm conclusions on:

- the current size and source of investment in regional, rural and remote Australia and its effect on regional business activity;

44 Productivity Commission, *Impact of Competition Policy Reforms on Rural and Regional Australia*, Inquiry Report, no. 8, 8 September 1999, p. xl.

45 *Submission* 80, p. 4.

46 *Submission* 80, p. 4. See also Evan Jones, 'Rural Finance in Australia: a Troubled History', *Rural Society*, vol. 12, no. 2, p. 171. Bernard Salt also considered that rural Australia is disadvantaged by the way in which social and economic data is collected. He argued that 'until a single, reliable set of data is established, the plight of service provision in rural Australia will remain little more than anecdotal.' 'People erosion hits small-town wheat lands', the *Australian*, 25 February 2000.

47 Regional Development: the Role of Governments, *ACCI Review*, November 2002, vol. 93, p. 3.

- the role that the various financial institutions have in assisting under-invested communities and their potential to improve their contribution to the economic growth of such areas;
- the extent to which the competitive pressures at work in country Australia are ensuring that small business is receiving fair and adequate access to finance and financial advice; and
- whether government intervention is required to ensure that under-invested communities do receive adequate access to financial services and, if it is required, the form that intervention should take.

17.43 The Committee acknowledges the criticism that there is inadequate information on the financing needs of small business in regional Australia and the supply of finance available to them. It accepts that the want of data frustrates any constructive analysis of the assistance provided by financial institutions toward the commercial life of regional, rural and remote Australia and whether it meets the needs of country Australia. It believes that as a first step toward the development of an effective policy in this area there is a need to establish a comprehensive data base of lending practices by financial institutions in regional, rural and remote areas of Australia.

Recommendation 31

The Committee recommends that the Australian Government consider ways to collect, analyse and publish data on the state of business activity in rural, regional and remote Australia; the availability of venture capital or seed funding to these areas; and the contribution that financial institutions are making to the commercial development of country Australia.

Overseas models

17.44 In response to the dramatic changes taking place in the financial services industry, a number of overseas countries have considered and put in place measures to widen access to capital and other financial services for those living in areas not well served by mainstream banking sources. Their main objective is to stimulate sustainable local commercial activity. The Committee looks at the experiences of three such countries—the United Kingdom, the United States of America and Canada.

17.45 The three countries have initiated a range of measures to promote community development finance programs to combat financial exclusion of disadvantaged groups. They recognised that the lack of access to commercial financial services, appropriate business advice, affordable loans and venture capital retards economic growth for areas not well served by other capital markets. Rather than undertake an overall appraisal of the regulatory regime in the three countries, the Committee has focused on one particular aspect most relevant to the inquiry—the availability of finance and financial advice to areas not well served by financial institutions.

The United Kingdom

17.46 The Government of the United Kingdom strongly supports Community Development Finance Institutions (CDFIs) which are recognised as an effective means of providing capital to deprived areas and underserved markets unable to obtain conventional mainstream finance.

17.47 CDFIs are independent financial organisations funded from a variety of sources including ‘individuals, and charitable foundations as well as banks and government’.⁴⁸ They are intended to be ‘pump primers’, seeking out and supporting individuals or groups with promising business prospects, so they become part of the mainstream financial world.⁴⁹ Their support makes it possible for new enterprises to grow, generate income and employment. Although committed to marginal businesses, they are concerned with financial as well as social return on their investment. The UK Investment Task Force explained:

to be eligible as a CDFI, the institution’s mission must be focused on community development, i.e. it must serve either low- and moderate-income people and/or low- and moderate-income communities. The primary activity of a CDFI is lending or investing in community revitalisation.⁵⁰

17.48 The Government has established a national Phoenix Fund designed to encourage entrepreneurship in disadvantaged areas. Some of the funds are made available to CDFIs to enable them to develop their core activities of providing finance and advice to enterprises from disadvantaged communities.

17.49 The United Kingdom also has a well-established loan scheme for small business to fill a recognised gap in the market for small firms to access finance.⁵¹ Called the Small Business Service Small Firms Loan Guarantee scheme, it is administered by the Small Business Service (SBS) which guarantees loans from the banks and other financial institutions for small firms that have a viable business proposal but who have tried and failed to obtain a loan because of lack of security. The SBS guarantees 75 per cent of the loan.

17.50 There is also growing interest in the role that disclosure of lending policies could have as an incentive for banks to become more involved in assisting areas to obtain finance. The UK Social Investment Task Force recognised in its recommendations to the Chancellor of the Exchequer the need for banks to provide

48 UK Social Invest Forum, *Community Development Finance Institutions: a new financial instrument for social, economic and physical renewal*, London, 2002.

49 Social Investment Task Force, *Enterprising Communities: Wealth Beyond Welfare*, London, October 2000, p. 23.

50 Social Investment Task Force, *Enterprising Communities: Wealth Beyond Welfare*, London, October 2000, p. 30.

51 See for example Business Link, *SBS Small Firms Loan Guarantee*, <http://www.businessadviceonline.org/cgi-bin/bv1/details.jsp?POID=1073755656&pc> (29 April 2003).

‘much more detailed, individual disclosure’ of their lending activities in under-invested areas, and ‘to sponsor the creation of a rating system to reward excellent performance’.⁵² It further suggested that if voluntary disclosure is not made quickly, the government should require disclosure in the manner of the USA Community Reinvestment Act.⁵³

17.51 Following up on this recommendation, the UK Treasury put the case to the banks for more transparent disclosure of individual lending activities to business in disadvantaged areas. The British Bankers’ Association has published information on bank lending in deprived areas and is seeking views on how the exercise can be refined for subsequent years.⁵⁴

United States of America (USA)

17.52 The tenet underpinning USA legislation, and clearly articulated in statute, is that regulated financial institutions serve the convenience and needs of the communities in which they are chartered to do business including the need for credit services as well as deposit services.⁵⁵

17.53 In the USA, the Community Reinvestment Act (CRA), passed in 1977, is designed to assist disadvantaged communities obtain private capital. The legislation requires banks to satisfy the service and credit needs of the entire community, including those on low and moderate incomes. The legislation is intended to put regulatory pressure on banks to make loans in low-income communities and takes a three-pronged approach:

- Disclosure—the legislation requires each bank depository institution to keep a record of the assistance it has provided to meet the credit needs of its community.
- Assessment in the form of ratings—the records are examined periodically by the regulators and banks are allocated points for their performance in lending to low-income individuals and communities.⁵⁶

52 Social Investment Task Force, *Enterprising Communities: Wealth Beyond Welfare* A Report to the Chancellor of the Exchequer, Executive Summary, Recommendation 3, October 2000.

53 *ibid.*, Executive Summary, Recommendation 3. An update dated July 2002 stated that ‘The British Bankers’ Association intends to publish information on bank lending in deprived areas this year. Data will be presented by post-code, building on the information published by the Bank of England. They would welcome views on how the data might be used by stakeholders involved in the local regeneration agenda, so that they can refine the exercise in subsequent years.

54 Social Task Force, *Enterprising Communities: Wealth Beyond Welfare, Progress Report*, July 2001, December 2001 and July 2002.

55 US Code Collection, Chapter 30—Community Reinvestment, <http://www4.law.cornell.edu/uscode/12/ch30.html> (25 March 2003).

56 This performance rating scheme is not without its critics. See Allen J. Fishbein, ‘What’s next for CRA?’, *Journal of Housing and Community Development*, Washington, vol. 60, issue 4,

- Sanctions for poor performers—the grade or rating is taken into account by the regulators when an institution applies for regulatory approval to expand its deposit facilities including mergers and acquisitions.

17.54 Many regard the CRA as an important tool to help underserved communities gain access to mainstream financial services providers.⁵⁷

17.55 The US also has a long history of Community Development Finance Institutions (CDFIs) which began taking shape in the early 1970s.⁵⁸ At that stage, CDFIs received their capitalisation from government or philanthropic sources rather than mainstream institutions.⁵⁹ According to one study, CDFIs served as connecting points between the mainstream finance world and low-income communities. It found that:

Many CDFIs engage in loan packaging, loan brokering or sale of loan participations to mainstream institutions and investors that lack the capacity to find and underwrite community investments themselves.⁶⁰

17.56 CDFIs in the US received significant support when Congress approved the establishment of a Community Development Finance Institution fund in 1994 which provided assistance to certified CDFIs in a variety of forms, including ‘equity investments, deposits, loans, grants and technology assistance’.⁶¹ At first CDFIs concentrated on affordable housing but have expanded their activities to include small business and community service loans.

Canada

17.57 Canada has also in recent years reviewed its legislation governing the financial services sector. A report by the Canadian National Council of Welfare titled *Banking and Poor People: Talk is Cheap* released in 1998 deals with the issues of

July/August 2003; Reynold F. Nesiba, and Nathan Golz, ‘Sioux Falls, Citibank, and CRA: Do US credit banks deserve their “outstanding” community reinvestment performance evaluations?’, *Journal of Economic Issues*, vol. 36, issue, 2, Lincoln, June 2002.

57 *ibid.*

58 K Moy and A. Okagaki, *Changing Capital Markets and Their Implication for Community Development Finance*, prepared for the SURDNA Foundation, The Brookings Institution, 2001, p. 5.

59 K Moy and A. Okagaki, *Changing Capital Markets and Their Implication for Community Development Finance*, prepared for the SURDNA Foundation, The Brookings Institution, 2001, p. 8.

60 K Moy and A. Okagaki, *Changing Capital Markets and Their Implication for Community Development Finance*, prepared for the SURDNA Foundation, The Brookings Institution, 2001, p. 17.

61 G. Alperovitz, *Broadening Ownership of Productive Assets: Time for a Major Collaborative Transformative Effort*, <http://www.capitalownership.net/lib/alperovitzConferencePaper.htm> (14 July 2003).

closures of bank branches in poorer areas and the lack of service by banks to welfare recipients.⁶²

17.58 The report argued that many of the problems of the financial services sector cannot be overcome through the rigours of the market, and that competition and disclosure will not ensure good service at low prices for people in disadvantaged areas. The report argued that government intervention is required from time to time to ensure that financial institutions fulfil their obligations to the entire community, which includes providing reasonable service to people in all parts of the country.⁶³

17.59 Canada has adopted a new framework covering a wide range of aspects of financial services. Of relevance to this inquiry are the measures to provide better protection for consumers. The Canadian government was of the view that a regime similar to that established under the CRA was not warranted in Canada but that other mechanisms could be used to promote accountability. In June 2001, Bill C-8—the *Financial Consumer Agency of Canada Act* was passed by the Canadian Parliament. While this legislation introduced a range of consumer protection measures, including the establishment of the Financial Consumer Agency of Canada (the Agency), it stopped short of introducing comprehensive requirements such as those in the US.

17.60 Subsection 3(2) of the Act sets out the objects of the Agency, which include *inter alia*:

- (c) monitor the implementation of voluntary codes of conduct that are designed to protect the interests of customers of financial institutions, that have been adopted by financial institutions and that are publicly available and to monitor any public commitments made by financial institutions that are designed to protect the interests of their customers;
- (d) promote consumer awareness about the obligations of financial institutions under consumer provisions applicable to them; and
- (e) foster, in co-operation with any department, agency or agent corporation of the Government of Canada or of a province, financial institutions and consumer and other organizations, an understanding of financial services and issues relating to financial services.⁶⁴

17.61 Other measures of interest to this inquiry are:

62 National Council of Welfare, Canada, *Banking and Poor People: Talk is Cheap*, Summer 1998, available at <http://www.ncwcnbes.net/htmldocument/report%20Banking/reportbanking.htm>

63 *ibid.*, p 3.

64 *Financial Consumer Agency of Canada Act*, 2001 C9, available at <http://laws.justice.gc.ca/en/f-11.1/57856.html> The other objects of the Agency are to:

- (a) supervise financial institutions to determine whether they are in compliance with the consumer provisions applicable to them;
- (b) promote the adoption by financial institutions of policies and procedures designed to implement consumer provisions applicable to them.

- The requirement for banks with equity in excess of \$1 billion to publish annual Public Accountability Statements. They are to include ‘information relevant to the public, including the number of employees, small business financing initiatives, charitable contributions, efforts to improve access to banking services and the location of branch openings and closings’.⁶⁵
- The requirement for Statistics Canada to collect and publish data on the supply of debt and equity financing to SMEs.⁶⁶

Lessons for Australia

17.62 Evidence presented to this Committee strongly indicates that there is a need for business banking services which is not being met by the current banking system, particularly in remote and very remote Indigenous communities. In some cases the issue is not so much the withdrawal of banking services but the lack of any services in the first place.

17.63 Other jurisdictions, including the UK, the USA and Canada are facing similar problems as those in Australia, in terms of access to banking facilities, closure of branches and loss of services in rural, regional and remote areas. Because of its size and population distribution, as well as the nature of its banking system, Canada is probably the most broadly comparable country to Australia.

17.64 The crux of the problem seems to be whether difficulties associated with access to adequate banking and financial services should be ‘solved’ by allowing market forces to reign, or by having the government intervene in some way. If intervention is thought necessary, the question then becomes one of what type of intervention is going to be most effective.

17.65 The CRA imposes a type of community service obligation on banks via regulation, requiring a financial institution to serve the entire community in which it operates. As the Centre for Aboriginal Economic Policy Research (CAEPR) recognised, the imposition of community service obligations on banks is not an easy thing. The alternative to regulatory restriction is relying on moral suasion to convince banks that in the longer term it would be good for business to look after disadvantaged communities.⁶⁷

17.66 With reference to the CRA model, CAEPR’s view was that there seemed to be a ‘great deal of opposition to that sort of heavy-handed approach in the Australian context.’⁶⁸ CAEPR indicated that, in regard to Indigenous communities, governmental

65 Department of Finance, Canada, *Reforming Canada’s Financial Services Sector—A Framework for the Future*, http://www.fin.gc.ca/finserv/docs/finservpa_e.html (30 April 2003).

66 Department of Finance, Canada, *Reforming Canada’s Financial Services Sector: A Framework for the Future*, June 1999, p. 62.

67 Professor Jon Altman, *Committee Hansard*, 14 November 2002, p. 86.

68 Professor Jon Altman, *Committee Hansard*, 14 November 2002, p. 86.

intervention will be needed to assist these communities to become financially viable, partly because the communities are at such a disadvantage compared to the rest of Australia.⁶⁹

17.67 It is clear that in comparison to the USA, UK and Canada, Australia does not have a clearly articulated policy on the provision of financial assistance and advice to areas not well-served by the financial markets. The work being undertaken by Westpac in the Cape York area is an example of a financial institution providing resources to encourage local enterprises and to stimulate the local economy. While commendable, this project, however, is an isolated example of what the Committee believes should be an established practice expected of all the major financial institutions undertaken in conjunction with government initiatives to assist communities with their banking and financial services needs.

17.68 The Committee acknowledges and fully supports the recent proposal put forward by the ABA for it to lead a tri-partite Round Table ('Remote Services Round Table'). In brief, the initiative is to involve relevant government agencies, in partnership with Reconciliation Australia, to draw up action plans to improve access to banking services in remote regions.⁷⁰ This proposal is in keeping with a number of the Committee's recommendations. For example, the Committee sees an important role not only for institutions such as the Traditional Credit Union but the major banks in encouraging and assisting Indigenous Australians to pursue a career in the financial services sector (see recommendation 25). Recommendations 26 and 27 are also particularly relevant.

17.69 While the Committee endorses the ABA's proposal and strongly encourages other possible participants to support the roundtable process, the Committee, nonetheless, would like to see concrete evidence of financial institutions taking a more hands-on approach to providing financial services to remote communities.

17.70 As noted above, the USA under the CRA places a disclosure obligation on banks. The British Bankers' Association has also acted on the Social Investment Task Force recommendation that banks disclose their lending activities in under-invested areas. Canada, while rejecting the CRA model, has taken steps to ensure that a comprehensive program of information collection and analysis is undertaken on the supply of debt and equity financing to SMEs.

17.71 Clearly, the three countries perceive advantages in requiring financial institutions to disclose information on their activities, including lending practices, in disadvantaged areas. The Committee considers that such a requirement would certainly improve the transparency of the lending practices of ADIs to disadvantaged areas in Australia and encourage them to take a more active role in providing such communities with financial assistance, advice and in stimulating local economic activity.

69 Professor Jon Altman, *Committee Hansard*, 14 November 2002, pp. 83, 86–87.

70 *Supplementary submission 117A*, p. 2.

17.72 Westpac publishes a social impact report each year and has been doing so for two years. Mr Leon Davis, Chairman of Westpac, accepted that it exposes the institution to criticism but indicated that neither he nor the board were 'too worried'.⁷¹

17.73 The Committee believes the banking industry should promote public understanding of its work in disadvantaged areas of Australia. The Committee notes the work being done by Westpac in this area and the value that a social impact report could have in encouraging financial institutions to take a more active part in assisting disadvantaged areas with their financial needs. Further, it notes the approach taken by the USA, and the interest taken by the UK, in having a rating system as an incentive for banks to pay greater attention to the needs of disadvantaged areas.

Recommendation 32

The Committee recommends that the banking industry look closely at the disclosure requirements on financial institutions in the UK, USA and Canada regarding their involvement in providing finance to disadvantaged districts with a view to developing a disclosure regime for Australian banks. The intention of the regime would be twofold. Firstly to provide an accurate picture of the lending practices of banks to disadvantaged areas and secondly as an incentive for banks to assume a more active and constructive role in assisting residents and local businesses in disadvantaged areas, especially in country Australia, with their financial needs and to help invigorate their local economy.

Recommendation 33

The Committee recommends that the Department of the Treasury also look closely at the disclosure requirements on financial institutions in the UK, USA and Canada in regard to their involvement in providing finance and other assistance to disadvantaged districts. Further that the department:

- **monitor and determine whether the disclosure practices adopted by the banking industry in Australia ensure that adequate information is available about the contribution that individual financial institutions are making to assist rural, regional and remote Australia and whether the disclosure regime is encouraging banks to become involved in the economic development of such areas;**
- **determine whether the introduction of a rating system as specified in the CRA and outlined in the UK Task Force recommendation to the Chancellor of the Exchequer would have merit; and**
- **consider whether financial institutions should be under a legislative requirement to report on their activities in rural, regional and remote Australia.**

71 Transcript, 'Interviews: Westpac's Persona', 'Business Sunday', 14 September 2003.

17.74 Before concluding this report, the Committee briefly mentions the role of local councils.

Local Government

17.75 Local government bodies are taking an active role and have been successful in enticing financial institutions into their locality. In February 2000, Councillor Peter Woods, then President of the Local Government Association of NSW, asserted that the availability of banking and financial services is fundamental to community viability. He maintained that local government is about ‘building and maintaining prosperous and sustainable communities’. He argued that local government can and is responding in two key ways:

- Taking on a facilitative role to retain services and to attract alternative service providers. For example, councils have been instrumental in having banking services restored by credit unions and community banks in many locations.
- Taking a hands-on role involving the investment of Local Government resources and playing an active role in working out solutions. At a local level this has involved councils establishing agencies of banks and delivering banking services alongside council services.⁷²

17.76 The Shire of Victoria Plains and the Nanango Shire Council are examples of councils that have stepped in to provide their residents with banking services. In both cases the establishment of the banking agency was at a cost to Council and recognised as a community service.⁷³ Throughout the report there are similar examples of local councils taking on responsibilities for providing banking and financial services including the role of educating and training local residents to use alternative ways of banking.

17.77 Mr Christopher Francis, City of Ballarat, noted the growing pressure on local councils to deliver a range of services from which other levels of government have chosen to withdraw or reduce funding. The same is happening with the withdrawal of private sector services. Mr Francis told the Committee that ‘there is the expectation that we will pick up those in some form, maybe through the provision of banking services with council offices, electronic funds transfer or other services.’⁷⁴ He made the point, however, that the role of local government is not to provide financial advice to people.⁷⁵

17.78 Councillor Smith added the same cautionary note. He told the Committee that local government has to be careful about what it is about:

72 Councillor Peter Woods, President’s comment, *Focus*, February 2000, <http://www.lgfocus.com.au/2000/february/presgr.htm> (23 December 2003).

73 *Submission* 49, p. 2.

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

75 *Committee Hansard* 26 February 2003, p. 276.

I do not think it is just peculiar to us in Queensland, but more and more services are being devolved down to local government from state government. I just wonder where local government's role really is...we have government services already now associated with local government—what was termed the Queensland Government Agent Program—such as transport licensing forms, through our QGAP office. We have got Rural Transaction Centres. These sorts of services are the things that local government is doing, over and above what is the norm of local government. As each day goes by, we find we are getting into different areas.⁷⁶

17.79 Mr Barber, Latrobe City, stated that it was important for local government to interact very closely with the banks and other commercial organisations, credit unions and suchlike, to ensure that they try to help ratepayers, 'if there is a potential calamity we see coming'.⁷⁷

Conclusion

17.80 The Committee believes that ensuring the provision of adequate banking and financial services to regional, rural and remote Australia is the joint responsibility of the financial services sector and government with the active involvement of the community. It believes that ADIs do have a social responsibility to ensure that the communities they serve are provided with adequate services. It believes that there should be measures in place to guide, assist, even compel Australian ADIs to behave appropriately. The industry code of practice provides a major incentive for banks to observe minimum standards. The Committee has made recommendations to strengthen the protocol governing branch closures by, *inter alia*, requiring banks when considering branch closures to consult with the community and to release a community impact statement. It has also made recommendations to broaden the banking code of practice by including an undertaking that banks will take all reasonable measures to educate customers in the use and benefits of accessing banking services through new technologies. Further, that the code will offer practical guidance on some of the measures that banks could take to ensure that they are effective in meeting this commitment.

17.81 In turning to compliance, the Committee has recommended that the ABA take an active role in monitoring and reporting on the banks progress in improving its code of practice and in implementing the recently formulated industry standards. Furthermore, the Committee has recommended that the banks work together to minimize the costs associated with using a foreign ATM in country areas and to introduce a safety net basic account that provides benefits over and above those offered in the recent proposal developed by the ABA.

17.82 Governments also have an important role in ensuring that all Australians have reasonable access to banking and financial services. Their central function is to create

76 *Committee Hansard*, 23 May 2003, p. 510.

77 *Committee Hansard*, 26 February 2003, p. 284.

a marketplace in which consumers are well-informed, their interests are protected and competition flourishes. The Committee believes that the Government has an obligation to intervene should the market fail to look after the needs of consumers especially in the area of access to banking and financial services.

17.83 To this end the Committee has made a number of recommendations that include improving the quality of data on, and analysis of, the availability of banking and financial services. It has recommended the continued funding of the RTC program, ongoing support for programs such as the Family Income Management Plan, and the introduction of an incentive scheme providing opportunities for Indigenous people to work in the financial services sector. The Committee has also recommended that the Government take a far more active role in monitoring and encouraging financial institutions to observe minimum industry standards and to express its readiness to implement stronger regulatory requirements should the industry fall short in meeting these standards. The Committee can see the advantages to be gained in placing requirements on banks to report on their work in disadvantaged communities and has asked the Department of the Treasury to consider the merits of a rating scheme.

17.84 In turning to the regulatory bodies, the Committee has recommended that—the ACCC examine the competition issues involved in switching bank accounts; ASIC investigate practices associated with book up in an effort to curb unscrupulous conduct; and ASIC and APRA examine and report on the compliance costs for smaller ADIs under the current regulatory regime in providing services to regional, rural and remote areas and whether they can be minimised without compromising consumer interests or prudential standards.

17.85 Overall, the recommendations are intended to improve competition in the retail banking industry, strengthen consumer protection and to encourage the financial services sector to assume a far more active and responsible part in promoting the economic welfare of people and their communities in regional, rural and remote Australia.

SENATOR GRANT CHAPMAN
CHAIRMAN

