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Submission to Regional Banking Taskforce

The Australian Retailers Association (ARA) welcomes the opportunity to make a submission to the Federal government's Regional Banking Taskforce considering the impact of bank branch closures on regional communities.

The ARA is Australia's oldest, largest and most diverse retail body, representing a \$360 billion sector that employs 1.3 million Australians. As Australia's leading peak body for retail, the ARA represents independent, national and international retailers, with more than 100,000 retail shop fronts nationally. A high proportion of our members service regional communities, including the network of Australia Post licensees.

The ARA's position in respect of regional banking services is that banks need to strike a better balance between shareholder returns and community needs. We recognise that banks have an obligation to their shareholders to maximise profit and that operating unprofitable branches in regional Australia is at odds with that mission. However, we hold that banks also have an obligation to serve regional communities because their social licence to operate requires equal access to banking services across the country.

If banks are unable to achieve this balance through a physical network of branches, then our members, and the broader communities they serve, need access to alternative modes of cash management, transactional banking and relationship banking. We believe these alternatives would be mutually beneficial to the banks, their customers and regional communities.

We also believe there is significant room for improvement in the way that branch closures are communicated and managed. The following quote, from one of our members operating a Licensed Post Office (LPO) in regional New South Wales, speaks to some of the frustration caused by successive branch closures in regional communities over a number of years.

When I bought my little LPO 15 years ago we had three banks in the street - now we have none. As they started closing down bank branches, they replaced them with ATM's of which we had three - now we only have one. I'm constantly getting people wanting to do banking transactions in my LPO as there aren't any branches in town. It is more frustrating for ANZ customers as they can't withdraw/deposit with us at the post office and the only ATM in town charges them \$4 to make a withdrawal.

Fifteen years ago, I used to walk across the road to do my banking but then that branch closed so then I moved my accounts to another bank that had a branch in my town, then that bank closed. I have now moved my accounts again to a bank that has a presence in the town but is not a working bank as such.

I do most of my banking at my post office. But I find a lot of businesses now have to travel out of town to do their daily banking which means they either have to take time away from their business or pay their employees to do the banking.

The ARA's submission has been partially informed by survey responses from some of our small and medium sized members in regional Australia.

Whereas our members are focused on managing the day-to-day impacts of branch closures, we must also acknowledge the broader transition that the banking sector is working through. This shift will require retailers to reimagine their relationship with banks, as cash and cheques continue to decline, and digital payment methods become the norm.

Our response address both the short-term pressures and the longer-term transition. It has been structured in-line with the questions posed in the Issues Paper released by the Regional Banking Taskforce in November 2021.

Question 1: **How are Australians changing the ways they access banking services? What is driving these changes?**

The key shift in banking services over the past 20 years has been from in-person, in-branch banking to ATMs to online banking. The key drivers of this change are partially consumer-driven (increased convenience and transparency) and partially driven by the banks (cost efficiencies and increased productivity).

This transition has changed the way our members access bank services in regional communities.

- **Local branches continue to close.** Whereas on-line banking provides a level of convenience, the closure of branches in regional Australia has made in-person banking less convenient for our members. With fewer branches in local communities, our members report there has been a change in how often they access in-person banking services, from daily to weekly and even monthly. They also report having to travel up to 100km for a full range of banking services, when the last branch in their community closes, and inconsistent trading hours and service standards in the branches that remain open.
- **Online banking continues to grow.** Like many other business customers, our members have shifted to online banking for some (but not all) of their banking needs.
- **Bank @ Post fills the void.** As more bank branches close, more Australian businesses are using Bank @ Post to access some (but not all) of their banking services. Through its national network of post offices, Australia Post has always played an important role in regional communities. The ongoing expansion of their offering to include some transactional banking activities (like deposits, withdrawals and account balances) has supported continuity of service in communities where banks no longer have a presence.
- **Cash continues to decline.** The core banking service used by our small and medium sized members is cash management – coins, cash and cheques. Unfortunately, these are not the types of services that can be easily migrated to an online environment and regional communities don't always have access to the facilities that are needed to supplement online banking, like ATMs. The result is that retailers are moving away from cash to in-store digital payment platforms, in some cases before their customers are ready to make that transition. Even owner / operators of Australia Posts LPOs have reported frustrations in terms of their own banking needs, and experience many of the same challenges that their customers experience.
- **Relationship banking has been consigned to history.** The availability of in-person relationship managers has declined in line with bank closures, particularly in regional communities. Our members report that the lack of a "human connection" makes it harder to do business, particularly on large commercial dealings, loans and overdrafts. This has meant that our members in regional Australia may no longer have access to these types of banking services.

Question 2:

What banking facilities, services and products are used in regional bank branches?

According to a sample of our members ($n=48$) who responded to a recent survey, the most commonly used banking services in regional Australia include:

- **Deposits.** More than half of respondents (54%) confirmed that making deposits of cash takings was their most used banking service. Some members also indicated that they were still banking cheques (9%).
- **Withdrawals.** Changing cash for coins was the second most used service (43%) and cash withdrawals to pay suppliers and staff was the third most used service (26%).
- **Relationship management.** Business banking services, account management and face-to-face business dealings were next most important to retailers in regional areas (26%).
- **Credit facilities.** Services linked to business banking - such as managing loans, overdrafts and credit cards - ranked at number four in terms of the most used banking services (24%).

Question 3

Are there particular banking products or services that need to be delivered face-to-face or have support provided face-to-face? Are any of these particularly important for regional customers?

A quote from one of our members confirms that “face-to-face contact is vital for some transactions. A customer needs to know and trust their bankers. A faceless phone call does not inspire this trust.” Another member speaks about being financially isolated as a result of bank branch closures and the transition to online banking.

Specifically, our members in regional areas indicated their preference for face-to-face banking when making deposits of cash and cheques, given the cash economy is more active in the regions than metropolitan areas and the absence of a viable alternative. Members also spoke about the need to continue providing services to vulnerable and older Australians who are yet to make the transition to online banking.

And whilst not connected directly to face-to-face interactions, the reduction in branches and ATMs in regional areas has created complexity and increased costs for retail business in terms of cash management.

I want a dedicated business team who know the services that are available to businesses and how they are set up. It took us 5 visits to normal CBA staff to get them to cancel our overdraft. They had no idea how to do it as it was the business them who normally did that.

Question 4

What are the impacts of regional bank branch closures on the banking needs of individuals?

The impact of branch closures in regional areas has a largely detrimental impact on communities and businesses. However, some members report little or no impact as a result of banks closing local branches because the current offerings of the banks or post offices is adequate.

The biggest impacts for our members in regional Australia include:

- **Less convenience.** Our members report having to travel up to 100km to access banking services, either in a full-service bank or with an Australia Post licensee. They also report having to co-ordinate with other

business owners, so they don't overwhelm the capacity of local branches or post offices, particularly in relation to cash withdrawals and exchanging cash for coins.

- **Less time in the business.** As one of our members responded, "a lot of businesses now have to travel out of town to do their daily banking which means they have to take time away from their business."
- **Fewer services.** While members are largely complimentary about the offering and services provided by Bank @ Post, some members indicated frustration that not all banks have signed an agreement with Australia Post and others indicated that "there only so much the banks will allow Bank @ Post to do for business customers."
- **Less accountability.** There is a sense that online and phone banking channels are less accountable than face-to-face interactions but also an acknowledgement that this frustration was not exclusive to regional areas. As one member said, "I can't get onto a human being if I need one."
- **Less expertise.** Without a dedicated business banker or relationship manager, members outlined their frustration about "getting the run around from staff or having to deal with people in a call centre who do not know our business or how regional town works."

Question 5

What are the impacts on the banking needs of businesses, community organisations and communities?

The main impact for small and medium sized retailers in regional Australia is having to spend "extra money and time to do something that should be simple." In addition to this and other impacts outlined in response to Question 4, members also indicated that there was a higher risk of theft and fraud as a result of more cash being stored in businesses and in homes.

Question 6

Are there particular issues in the provision of banking services in regional Australia for specific vulnerable groups?

Some members lamented that banks no longer have the physical presence in regional communities to play a positive role in building financial literacy with children, as they have done in the past. Respondents also talked about the impact that local bank closures play in exacerbating financial inequality and social isolation, particularly for disadvantaged and older Australians who are not comfortable using online or phone banking.

Question 7

What could banks do to help customers transition to alternative banking services that would enable them to do their banking in a timely, efficient and cost-effective way?

As noted in our preamble, the ARA appreciates that banks have an obligation to maintain profit growth for their shareholders. However, we also believe that banks have an obligation to provide viable, cost-effective alternatives to support regional communities when unprofitable branches are closed.

This obligation will change over the next decade as cash and cheques continue to decline, in favour of digital wallets and transactions. Instead of providing banking services most frequently used in regional communities today, banks will need to play a significant role in educating and training their customers about the shift to a cashless retail sector and society.

Survey responses from our members confirm there are currently unmet needs when it comes to banking services in regional communities, and outline some of the potential solutions to address these challenges.

- **Invest in new forms of face-to-face.** While some of our members called for an increase in bank branches, there were also some pragmatic suggestions about how to provide face-to-face services beyond the branch network. Some suggested an expansion of current mobile banking services – like home loans – into business banking for regional communities. Others looked at the success of tele-health during the pandemic and posed the prospect of so-called “zoom banking” to provide some continuity in the provision of non-transactional banking so members could “deal with the same person each time.” There was also a theme about the need for improved training for tellers so as to improve service delivery in remaining branches.
- **Invest in Bank @ Post.** There was also a theme in responses about making post offices a genuine alternative for banking services in the regions. Some talked about the need to “offer more banking services through the post office network” and expand the service offering to include things like coinage, account management and identity checks.
- **Invest in technology.** Some suggested a minimum service standard of at least one ATM in each town, and for that ATM to provide a range of services like deposits and coinage, as well as cash withdrawals. Poor connectivity to online banking was also noted as one of the reasons why the use of cheques remains higher in regional Australia, compared to metropolitan areas. As cash transactions continue to decline though, the functions that an ATM could perform will continue and so will the banks margins in providing these services. A national network of brand-agnostic ATMs could serve a useful purpose in the transition, assuming there will need to be a safety net for late movers to the non-cash economy.
- **Reduce fees.** A number of responses highlighted the disparity between banks withdrawing services from regional communities but continuing to charge fees at the same rate. Others mentioned that closures of bank branches and bank ATMs had led to a rise in ATM charges for using third-party banking facilities.

Question 8

Are there facilities, services and products provided in bank branches that are not available through alternatives like ATMs, Bank@Post, phone banking, mobile banking, the telephone and the internet?

In their survey responses, members identified the following services that are not readily available through current channels:

- more reliable cash management services with a focus on coinage and cheque acceptance with shorter clearance times;
- account management beyond account balances, including enquires, disputes and transfers into third-party bank accounts;
- opening new accounts, including identity checks; and
- applying for and managing loans, overdrafts and other credit facilities.

There was also a theme about lower adoption of technology in regional communities, meaning that businesses and consumers who were unable to transition to online banking had lost access to most banking services.

The issue of digital adoption in the regions will become a critical issue over the next decade and will require concerted effort between the banking sector and the community to make sure that there is an equitable transition to the non-cash economy of the future.

In terms of the potential impact of this transition on retailers in regional areas, survey responses from our members suggest that our sector will require support in this transition. The ARA is well placed to provide training and education to members about this transition, through our Registered Training Organisation (RTO) the ARAs Retail Institute.

Question 9

What are alternatives to bank branch models that would maintain or improve banking services and accessibility in areas where branches have been closed?

The overwhelming response to this question was for more Bank @ Post locations, with more services through these locations. There were also suggestions for more ATMs and for more so-called “smart ATMs” that could provide more services than current functionality allowed, and for Australia Post to become a bank in its own right so as to maintain face-to-face services that are important to regional communities.

Question 10

Are there any alternative models for the provision of banking services that could be considered for adoption by banks in Australia?

Again, the prospect of Australia Post becoming a bank was suggested by a number of members in their responses, with one respondent highlighting the successful Kiwi Bank model from New Zealand. Members also talked about the opportunity to provide more services through brand agnostic ATMs and the need for more ATMs.

In conclusion, we accept that banks have obligations to their shareholders and that branch closures are one of the measures that banks can take to improve profitability. However, we don't accept that a bank's obligation to a regional community ends once they leave town. We believe the banking sector needs to provide cost-effective alternatives to retailers and other businesses in the regions to ensure equal access to banking services across Australia.

So how do we bolster the Australia Post network to provide more services in more locations? How do we invest in facilities like smart ATMs to complement the shift to online banking? And how do we apply our experience from the pandemic and use digital channels to provide continuity of service for business banking services?

And perhaps more importantly, how do we prepare our sector now for the ultimate transition to the non-cash economy of the future, particularly in regional communities? With a high proportion of our members SMBs in regional Australia, these are important questions for our sector.

We look forward to making a meaningful contribution to the ongoing discussion about banking services in the regions and look forward to the findings from the Regional Banking Taskforce.