Ideology no substitute for traditional banking

Regional banking in Australia, Part 1

> *Part 2, [Banks play the blame game](); Part 3, [Postal 'people's bank' the solution for regional Australia]()*

Growing grassroots support for an Australia Post public "people's bank" has the major banks on the run. Intense public interest generated by the unjust ouster of Australia Post CEO Christine Holgate, who saved Australia's regional banking services by securing a historic deal with the major banks, brought regional banking into the forefront of the public consciousness.


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Answers sought on bank closures

By PATRICK COMMINS
ECONOMICS CORRESPONDENT
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The number of regional bank branches fell by 10 per cent over the three years to 2020. Picture: Dominic Elsome

Following the attention on regional banking services, including by the Citizens Party's postal bank campaign, the government has established a Regional Banking Taskforce.

In evidence of the growing political awareness of public support for the issue, Nationals Senator Perrin Davey moved a 26 June 2021 notice of motion in support of regional banking services, which included support for a parliamentary inquiry into the matter. Following this, the 21 October 2021 *Australian* documented the government's announcement of the formation of a Regional Banking Task Force, which would "examine the impact of bank branch closures on regional communities and look at how to maintain services in rural Australia". Although increased scrutiny of the issue is welcome, the history of key task force participants indicates that the public should be alert for narrative management by vested interests. Davey's taskforce co-chair is Assistant Treasurer Michael Sukkar, who in 2019 spearheaded the government's attempted cash ban; and the task force includes representatives from the major banks and their lobbyist, the Australian Banking Association (ABA), as key stakeholders.

For decades, regional Australia has suffered from being abandoned by the major banks. For over twenty years, the banks have placated the resulting public anger by making false promises to desperate regional communities, with evidently no intention of following through.

Meticulous research by Dale Webster, former News Corp journalist and founder of a new independent online news service, *The Regional*, recently revealed the true extent of rural branch closures, which had been concealed for decades by the bank regulator, the Australian Prudential Regulation Authority (APRA), publishing false and distorted bank branch data to shamelessly protect the banks from the ire of the public.

Regional bank closures predicted

Parliamentary inquiries into regional banking services, such as the 1999 "Regional Banking Services: Money too far away" (Hawker inquiry), chaired by Liberal MP David Hawker; and the 2004 "Money Matters in the Bush: Inquiry into the Level of Banking and Financial Services in Rural, Regional and Remote Areas of Australia", have found that communities which lose access to traditional face-toface bank branches experience significant social and economic detriment.

Notably, declining access to face-to-face banking services was the result of deliberate government policies; moreover, the instigators of those policies foresaw that they would result in branch closures.

Australia’s modern financial regulation was founded on principles developed by the Campbell (1981) and Wallis (1997) inquiries, which were based on the now-discredited “efficient markets theory”, an ideological premise that regulatory intervention should be kept to a minimum because the market would solve all ills. The result was a wave of financial deregulation implemented from the 1980s, which meant that Australia’s banks now operated in a highly competitive global market, and were under increased pressure to improve performance and efficiency.

However, as documented by the Hawker and Money Matters inquiries, it was not until the mid-1990s that the major banks began to seriously “rationalise” their branch network, which was extensive under the formerly highlyregulated system. The escalating “rationalisation” of bank branches coincided with the privatisation of the Commonwealth Bank, which began in 1991 and was completed in three stages. In 1993, the year that the second stage of privatisation was completed, there was an escalation of branch closures. In June 1993 there were 7,065 total bank branches in Australia, but within eight years this number was reduced by almost one third. The number of yearly branch closures rose steeply to 380 in 1996, the same year that the final stage of privatisation was completed. The following year, the Wallis Inquiry’s report was published, and closures hit a yearly peak of 500 branches. In the wake of the Wallis Inquiry, from 1997-2000, there was a particular escalation of branch closures in non-metropolitan areas.

Policy based on flawed ideology

However, these closures were not unexpected—they were foreseen by the Wallis Inquiry, which anticipated that efficiency-chasing banks would rationalise their network by cutting branches. But according to the Money Matters report, the Wallis report “presumed that while competition would result in branch closures a range of services would spring up to replace them”. This was an ideological presumption—the Wallis inquiry believed that “continued competitive pressure in the financial sector *should* yield benefits” to small and medium businesses. (Emphasis added)

The Howard government’s response to the 1999 Hawker inquiry into regional banking revealed its ideological commitment to the same ideology. Although the Hawker report extensively documented the detrimental effects of branch closures on regional communities, the government’s response, which was authored by then-Minister for Financial Services and Regulation Joe Hockey, claimed that there was “a danger that any attempt to try and force the retention of traditional banking infrastructure upon the industry is likely to constrain innovation and competition and, as such, may not be in the long-term interest of the communities in question.”

Five years later, the “Money Matters in the Bush” inquiry observed that the benefits of competition in the banking industry had been “lopsided”, falling “unevenly on sectors of the population with some, notably small rural towns, experiencing a disproportionately negative impact”. Witnesses argued that over the last decade, “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”. The Committee observed that in many instances a small country town was “a low value market that banks have chosen to jettison”.

A 2011 Senate inquiry into competition within the banking sector found that the long-purported benefits of competition were actually having the opposite effect. Witnesses described a “decline in regional representation [due] to the impact of greater competition”, in which the major banks had forced out alternative providers. In a previous inquiry, the same Committee had been “concerned that takeovers of regional banks by major banks are not only reducing the number of competitors but are specifically removing those banks most interested in lending to small business”.

By 2018, the Productivity Commission was describing Australia’s banking sector as “an established oligopoly”. The Commission’s 29 June report on competition in the financial sector determined that the four major banks’ market power was “substantially supported by regulatory settings, which contribute to the major banks’ structural advantages.”

In 2021, Dale Webster’s research on regional branch closures showed the effects of the regulatory policies which were instigated by the Campbell and Wallis inquiries. In 1975, prior to deregulation, Australia had 2,802 regional bank branches. As of July 2021, only 1,107 remained open, a loss of 60 per cent of the network.

Twenty years of the same excuses

The Regional

ARE CASHED-UP AND BANKLESS TOWNS JUST WATCHING THE MONEY GO ROUND AND ROUND?

‘Big four’ banks casting a dangerous shadow in regional Australia

Dale Webster Follow

May 7 · 23 min read

Independent journalist Dale Webster, founder of The Regional, has documented the closure of regional bank branches, and is warning that regional areas have developed a greater dependence on the cash economy because they don’t have access to banking services.

The 1999 Hawker inquiry determined that technological development should not be used as an excuse for diminishing services. Regional communities welcomed electronic banking as an additional service, but adamantly maintained that they needed to retain traditional face-to-face banking services. However, Hockey’s tone-deaf response to the Hawker report ignored these findings, instead lauding the “vast potential that technological change offers all communities”.

In the 2004 Money Matters inquiry, the major banks claimed they “[had] no doubts that consumer choice is a significant force shaping their decisions to close branches”, although the Committee shrewdly observed that “the impetus for electronic banking is also coming from the banking industry which appreciates the cost savings it offers.”

Almost twenty years later, the banks are still making the same arguments. In a 27 April 2021 interview with the ABC, Australian Banking Association CEO Anna Bligh claimed that banking was undergoing a “profound change”, describing a “massive shift” of customers using less and less cash. According to Bligh, the shift toward digital payments was accelerated by necessity during COVID-19, and Bligh claimed that customers “found the convenience so much more attractive that they’re not going to move back” to cash. However, Bligh’s claims were starkly contradicted by Dale Webster’s research which was published the following month. Webster reported that the reality of cash usage in regional Australia was “in stark contrast to urban and metropolitan chatter where the term ‘cashless society’ is being thrown about more and more”. In contrast to Bligh’s claims, Webster reported that there was over $90 billion of bank notes currently in circulation, and that one quarter of all transactions were still conducted in cash.

When the Regional Banking Taskforce was announced, the ABA’s responding media statement of 22 October 2021 claimed that “[w]here branches are closed, it’s because customers no longer need to do their banking face to face”. Anna Bligh’s contribution echoed Hockey’s lauding of the “vast potential [of] technological change” twenty years earlier; Bligh said that “[b]anking online platforms and apps are so incredibly advanced these days, most Australians are carrying around a bank branch in their pockets.”

It is evident that the views of banks and bank-loyalist politicians have remained completely divorced from the reality of regional banking needs for over twenty years. For example, the 2004 Money Matters Committee determined that the government had “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”. Although the inquiry went for two years, held multiple public hearings and published a report which was over 400 pages long, the Howard government did not even bother to respond.

Banking services: an essential public utility

The 1935-37 Royal Commission into the Monetary and Banking Systems in Australia determined that banks enjoyed a privileged position which closely resembled that of a public utility. As demonstrated by witness testimony to successive parliamentary inquiries, the Australian public has consistently maintained this view for nearly ninety years.

In the 1999 Hawker inquiry, most submissions stressed the “importance to rural and remote communities of having access to banking and financial services. Many organisations equated them with essential services such as clean water, health care, education and telecommunications”.

Reflecting the Royal Commission’s findings sixty years earlier, many submissions to the Hawker inquiry “argued that banks have been in a privileged position and that this imposes an obligation on them to provide services to the community.” In a 22 March 1999 media release, Committee Chair David Hawker said that banks “must understand that they play a key role in the economic and social fabric of regional and remote communities”.

The 2004 Money Matters inquiry found likewise, observing: “[m]any submissions held the view that banking services should be considered an essential service—a necessity of everyday life”. Witnesses testified that “the bank account is the most basic and the most important financial service for most Australians”, as it was a “prerequisite for engaging in the economic process”. Witnesses believed that “banks do have a responsibility to the community but are not being made to meet that obligation”. Because the government had stepped away from direct involvement in the banking industry, consumers had been left to look after their own interests.

Regional communities have struggled to cope with the loss of traditional banking services, just as they would undoubtedly struggle if the government had forced them to fund and maintain other essential public infrastructure, such as electricity or healthcare, on their own.

Although the Wallis Inquiry presumed that the “rationalisation” of bank branches would be offset by new services which would replace them, it is evident that there was no adequate substitute for traditional face-to-face banking. As documented by the 1999 Hawker inquiry, communities inevitably experience significant detriment from the withdrawal or downgrading of banking services. The inquiry observed that the “closure of branches affects the economic and social capital of communities”, with many submissions describing the closure of banks “leading to a financial drain from communities”.

Five years later, the Money Matters inquiry found the same problems identified by the Hawker Committee: the closure of regional bank branches meant businesses were finding it impossible to manage their cash flow, and the communities experienced a detrimental effect on tourism and trade. Individuals and businesses struggled with issues such as inconvenience, the security implications of transferring and holding large amounts of cash, long travelling times, reduced savings and a lack of access to financial advice. Farmers found it difficult to get finance because there was no local branch which understood their business and was willing to extend credit. The inquiry found that “[t]aken together, the effects of a branch closure are profound on a community and permeate every layer of community life.”

Nearly ninety years after the 1935-37 Royal Commission identified banking as an essential public utility, a 2020 Senate inquiry into regional inequality demonstrated that its importance remained unchanged. The inquiry documented that because of a lack of local bank branches, wealth in regional Australia didn’t stay in the communities where it was generated. Witnesses pointed to the example of America, where access to local bank branches meant that money stayed in the town and was lent on to local businesses. However, witnesses stated that in Australia, “[w]e don’t have that at all. All the money just flows straight out.” Witnesses from regional communities expressed concerns about the economic philosophies of free markets, privatisation and deregulation; and argued that “the neoliberal economic policy approach taken in the past three decades has had strong detrimental social effects even if one accepts that they have brought greater economic efficiencies”.

By Melissa Harrison, Australian Alert Service, 27 October 2021

One year since the infamous ambush of Christine Holgate

An emotional Christine Holgate in October 2018 announcing her Bank@Post deal, which saved access to banking services for 1,500 regional communities. Photo: Screenshot

The 21 October announcement of a regional banking taskforce came one day before the first anniversary of the 22 October 2020 political ambush of the woman who singlehandedly saved regional banking services in 2018—then-Australia Post CEO Christine Holgate.

In 2018, Christine Holgate opposed a decision by the Australia Post board to end Bank@Post, the service Australia Post provided to allow Australians to access their bank accounts through post offices. The board wanted to end the Bank@Post service because it had been costing Australia Post $50 million a year, most of it coming from the pockets of the small businesspeople who run the 2,850 licensed post offices across Australia.

However, Christine Holgate was adamant it should be saved, because 1,500 regional communities across Australia had no other way to access banking services. She told the board she had a plan to get the big banks to each pay a $20 million annual Community Representation Fee, to fund the service properly; after all, it served their customers. The board gave her a deadline of 30 September 2018 to land the deal. After months of intense work, assisted by four Australia Post executives who worked tirelessly, she landed the deal just before the deadline, and in doing so she saved regional banking services, made the 2,850 LPOs viable, and made Australia Post profitable. To celebrate, she awarded each of the four executives a $5,000 Cartier watch.

Two years later, having rocked the boat by opposing the government's plan to privatise Australia Post, and by proposing an Australia Post bank, her enemies used the watches as a pretext to ambush her in Senate Estimates, and for Prime Minister Scott Morrison to proclaim: "She. Can. Go!"

This whole story is now known because Angela Cramp and the LPOs stayed intensely loyal to Christine Holgate, whom they call "the best CEO Australia Post has ever had", and they campaigned with the Citizens Party to expose the truth.

Read part II: Banks play the blame game
