23 December 2021

Ms Nghi Luu
Secretariat, Regional Banking Taskforce
Financial System Division
The Treasury
Langton Crescent
Parkes ACT 2600

Via email: regionalbanking@treasury.gov.au

Dear Ms Luu

Regional Banking Taskforce Issues Paper

COBA welcomes the opportunity to provide a submission to the Regional Banking Taskforce Issues Paper. COBA is a member of the Regional Banking Taskforce.

This submission covers information about our sector and our branch networks and represents the views of COBA and not the Regional Banking Taskforce.

COBA is the industry association for Australia's customer owned banking institutions (mutual banks, credit unions and building societies). Collectively, our sector has more than $150 billion in assets and more than 4.5 million customers. Customer owned banking institutions account for around two thirds of the total number of domestic Authorised Deposit-taking Institutions (ADIs) and deliver competition and market leading levels of customer satisfaction in the retail banking market.

The historical formation of credit unions or building societies to serve geographical communities means that many customer-owned banks are based in regional Australia with deep roots in regional communities. Mergers have also expanded the footprint of some metro-based customer-owned banks into regional communities.

Our sector predominately focuses on retail household banking and as a general proposition does not engage significantly in business and farm lending. Around 85 per cent of our deposits come from households, while 97 per cent of our lending is to households.

It is critical that any responses to the issues before the Regional Banking Taskforce do not create barriers that prevent smaller banks for optimising their distribution networks. Any barriers would unnecessarily impede our sector's ability to reallocate limited resources to meet customer needs through the channels and products that they demand.

COBA is concerned that any responses aimed at major banks could inadvertently create issues for our sector and impact customer owned banks' strategic decisions to determine their own balance between physical and digital banking. This is important given the Government's pro-digital agenda (e.g. Open Banking) and the increasing need to reallocate resources for the digital transition.

While COBA members currently have traditional branch networks that are relatively large compared to our sector's market share, we are subject to the same pressures as the broader banking industry. We are subject to same declining branch usage that comes from consumers making the transition to digital. We also have the same commercial pressures on branches, albeit to a lesser degree due to our mutual model that does not focus on earning profits to pay out dividends for shareholders. However, the ongoing commercial viability of individual branches remains important given that less viable branches are consuming limited resources that could be better deployed in alternatives that better serve our collective customer membership. These alternatives include digital channel investments, exploring innovative service delivery or opening new branches in higher growth regions.

The recent tsunami of regulatory change has greatly increased the cost of compliance. The fixed cost nature of compliance disproportionately impacts small players such as customer-owned banks. The mandatory and time-bound nature of regulatory compliance means that scarce resources are diverted from ‘nice to haves’ to regulatory, risk and compliance projects to meet legal obligations. This diversion reduces the budgets available to fund customer-facing improvements such as branches and digital channels. Reducing these regulatory cost pressures could free up funds for banks to invest in projects that benefit our customers.

Given a great digital transition is underway, all stakeholders need to consider how banking services can be provided outside of the traditional branch model in regional communities. In this submission we outline a number of policy responses that could be considered. These are:

- **improving digital inclusion for regional communities**. Many communities do not have the skills or telecommunications infrastructure to conduct digital banking, or even more broadly, to access digital government services.

- **ensuring fair access for all banks to Government-owned Australia Post’s Bank@Post services.** Bank@Post supports the cash handling gaps of digital banking.

- **incentivising ‘self help’ and innovative responses to banking gaps**. These incentives would encourage communities and/or local governments to take matters into their own hands and work with willing banks to develop a service level that fits their needs. This would ensure that services are targeted where there is demand and community buy-in for them.

- **examining potential local government partnerships.** Local governments are on the ground and may have similar service delivery needs that could be leveraged to create service hubs.

Please feel free to contact me if you need any more information via mlawrence@coba.asn.au or 02 8035 8441.

Yours sincerely

MICHAEL LAWRENCE
Chief Executive Officer

Customer-owned banking and branches

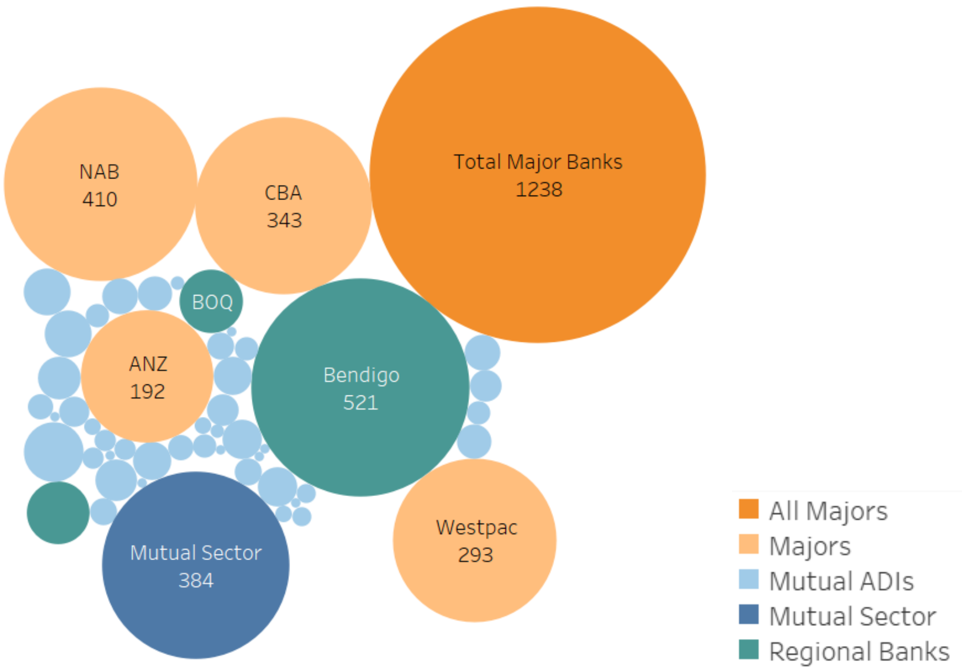
Community-based origins, including from regional communities

Our members were founded by communities as a self-help solution and we serve these communities with a ‘people helping people’ philosophy. Teachers lending to teachers, police officers lending to police officers, or Novocastrians lending to Novocastrians– the savings of one customer-member helping fund the loans of another customer-member.

Our original communities were diverse, including geographic, employer-based, industry-based, ethnic and faith-based. While once restricted to serving our particular ‘niches’, our members now serve a broader concept of community with many serving customers all across Australia. However, COBA members remain just as committed to their roots and serving their customers as a collective.

The historical formation of credit unions or building societies to serve geographical communities means that many customer-owned banks are based in regional Australia with strong ties to, and deep roots in, regional communities. Customer-owned banks have a relatively large number of face-to-face banking points of presence as a collective sector (Figure 1). While our connection to our communities remains strong, the declining commercial viability of the traditional branch model means that some branches may need to be closed to reprioritise resources to other channels that better serve our collective customer-members, upgrade existing branches to be the ‘branches of the future’ and open new branches in growth areas. Alternatively, these resources may be reprioritised into digital investments as society’s rapid and irreversible digital transition continues.

Figure 1: Number of regional face to face banking points of presence – 2020-21[1]



Source: COBA estimates based on APRA Points of Presence data. Smallest bubbles represent individual customer-owned banks.

[1] Regional defined as face-to-face points classified as Inner Regional, Outer Regional, Remote or Very Remote under the ABS Remoteness Classification.

Traditional bank branches are not the only way to show commitment to a regional community. Many customer-owned banks are based outside the major capital cities[2]. Table 1 shows a breakdown of our sector statistics based on where a customer-owned bank is located. This wider corporate footprint creates employment opportunities, including higher-paying jobs and executive role opportunities, outside of the capital cities. In addition, this creates institutions that may be more attuned to local markets. Note that these figures are based on the location of the headquarters of the organisation and may understate the regional footprint (for example, where major city-headquartered customer-owned banks have extensive regional networks) and vice versa.

Table 1: Customer-owned bank statistics

HQ Location	COBs	FTE	Customers	Assets	Average Assets
	(no)	(no)	(million)	($ billion)	($ billion)
Major Cities – capitals	31	6,187	2.8	100.5	3.2
Major Cities – other	8	2,188	1.0	35.2	4.4
Inner Regional	18	1,727	0.8	25.6	1.4
Outer Regional	5	357	0.1	3.5	0.7
Total	62	10,459	4.7	164.8^	2.7^

Source: APRA Points of Presence, COBA internal data, ^assets include securitised assets.

Additionally, COBA members have noted that the absence of a physical presence is not an indicator of a commitment to community. While branches can be most prominent physical presence in a community, one COBA member provides the example of its community managers who make regular visits to communities that do not have a branch presence. This member espouses a regional banking philosophy of “we want to be the best for the community not the best in the community.”

Smaller banks but with larger relative branch networks

Australia’s banking market is dominated by the four major banks who have around 75 per cent of the market share based on household deposits.[3] While our sector is collectively the fifth largest retail bank, our market share of household deposits is only around 10 per cent. Despite this, our sector currently has 735 branches (812 face-to-face points). This is larger than all but the two largest major banks (CBA and Westpac) despite our sector collectively being many times smaller than either of these banks. Our branch networks are also relatively large compared to the majors when it comes to regional areas (see Figure 1)

It is important to recognise that there is no guarantee that this current branch presence will remain appropriate or sustainable, given rapid and irreversible digital transition and the continuing decline of the traditional branch model. Customer-owned banks may need to reprioritise resources to invest in digital channels demanded by both current and future customers. Customer-owned banks may also have to reprioritise resources to meet the ever-increasing regulatory burden. Existing branch networks may need to be upgraded to be the ‘branches of the future’ and resources reprioritised to open branches in growth areas. These factors may put more pressure on lesser-used branch locations, especially in larger relative networks, as customer-owned banks look to reprioritise resources for a greater benefit for our collective customers.

Figure 2 and Figure 3 show the difference in the size of in terms of branch networks and assets for the major banks, some regional banks, the collective mutual sector and individual mutual ADIs.

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[2] Major capital cities defined as Sydney, Melbourne, Brisbane, Perth, Adelaide, Canberra. This distinction is used as Hobart and Darwin are not considered to be major cities under the ABS Remoteness Classification.

[3] Based on APRA’s Monthly ADI Statistics

Figure 2: Customer-owned banks overrepresented with branch networks relative to assets

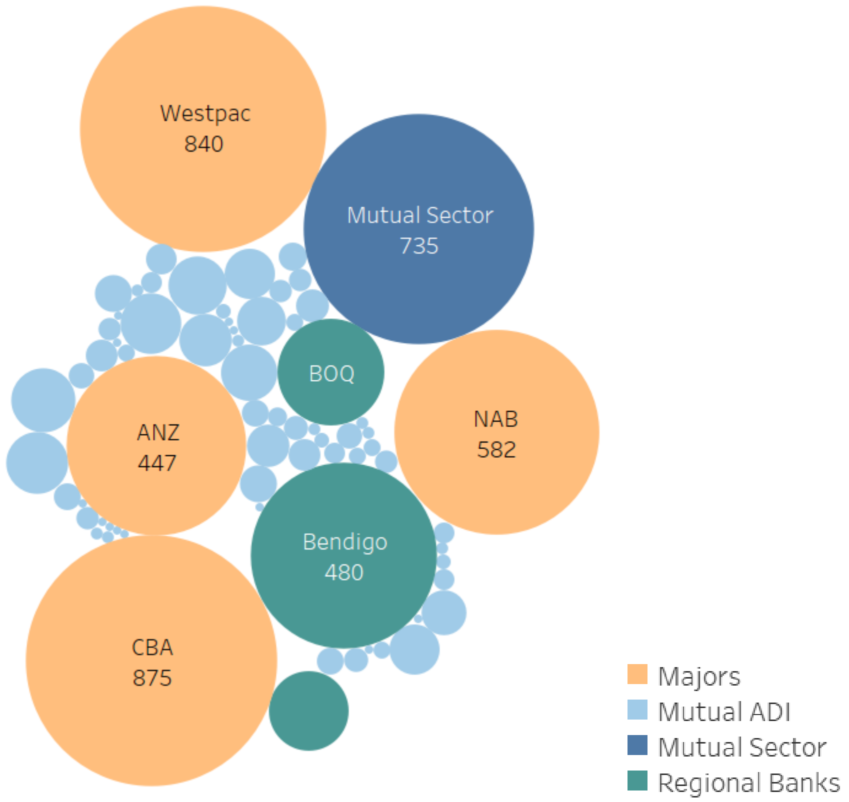
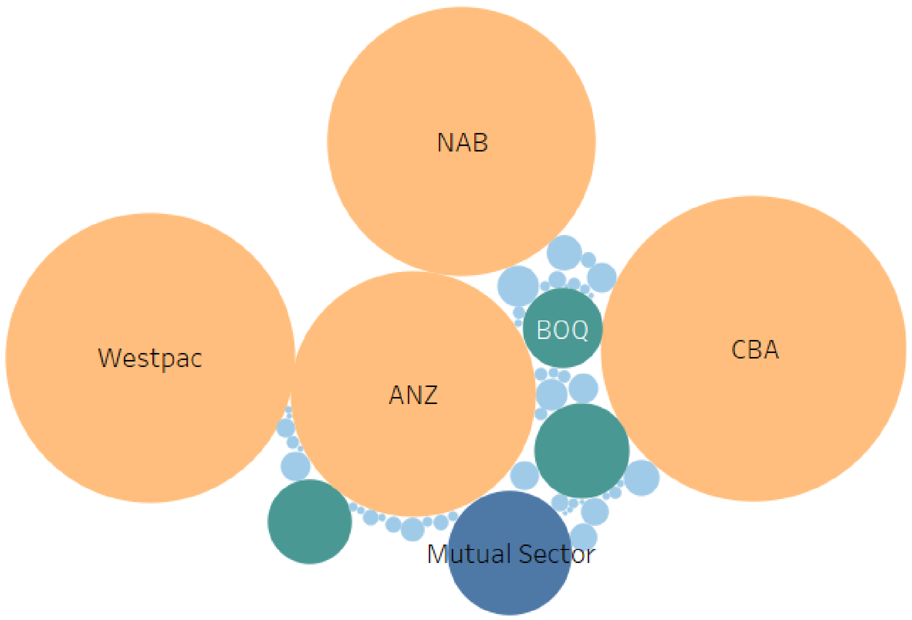


Figure 3: Customer-owned banking sector assets comparison



Source: COBA estimates based on APRA Points of Presence and APRA Monthly ADI Statistics. Smallest bubbles represent individual customer-owned banks.

Mergers and branch networks

A unique aspect of our sector is the long-term trend of mergers between customer-owned banks. Two customer-owned banks joining together in a merger is a common way to inorganically grow and increase their scale. Sometimes metropolitan and regional banks will merge together and combine physical footprints. In other cases, metropolitan and metropolitan or regional and regional banks will merge together. There may be branch network changes, including closures, implemented over time after mergers as merged entities look to 'right size' networks to avoid duplication and maximise efficiencies. The objective is better service for the wider customer base of the merged entity (i.e. digital investment, or a more focused strategy).

COBA notes that recent large customer-owned bank merger proposals have featured commitments regarding their branch networks. The proposed merger between Toowoomba-based Heritage Bank and South Australian-based People's Choice noted that: "Both Heritage and People's Choice operate in different geographies so there is no overlap of branch operations. Therefore, there are no branch closures as a result of the merger."[4] The proposed merger announcement between both Newcastle-based Newcastle Permanent and Greater Bank noted a commitment to "retaining a combined network of 100 branches for a period of at least two years."[5]

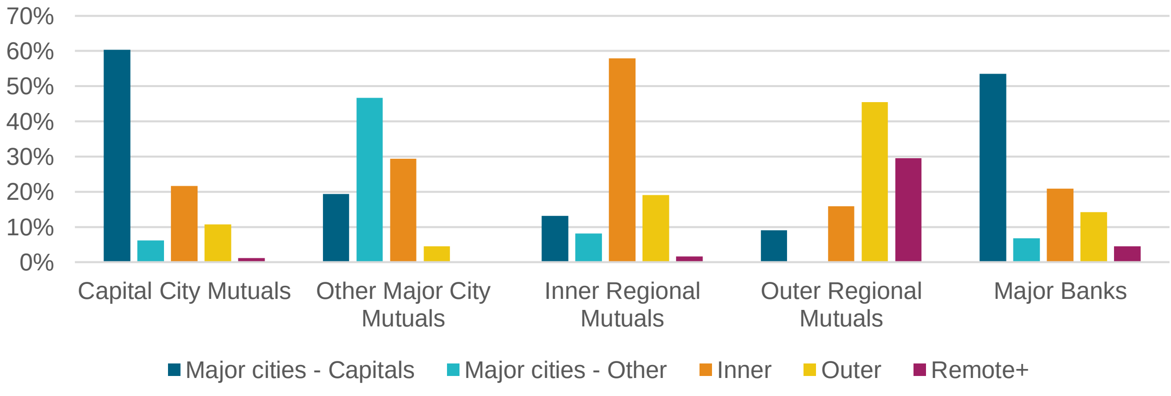
Geographical diversity of individual customer-owned bank branch networks

The customer-owned banking sector geographically organise their branch distribution networks in a wide range of ways. Some COBA members offer limited branch networks that align with their target market while others have national networks that may look similar to a major bank.

Graph 1 below shows how our sector's geographic branch distribution varies based on the location of their headquarters. While our capital city-located COBA members may have similar branch distributions to the majors, other COBA members naturally have branches skewed towards their regional focus.

Any 'one-size fits all' requirements that assume that all ADIs have the same kind of network as the major banks would disadvantage these COBA members.

Graph 1: Customer-owned bank branch network diversity[6] —distribution of branches based on location of the ADI's headquarters



Source: COBA estimates based on APRA's Points of Presence data

[4] Heritage Bank website (accessed 13 December 2021)

[5] Newcastle Permanent website (access 13 December 2021)

[6] COBA estimates based on APRA Point of Presence data. We split the major cities into the major capitals (Sydney, Melbourne, Brisbane, Perth, Adelaide, Canberra) and other major cities (e.g. Newcastle).

Customer-owned but still commercial entities

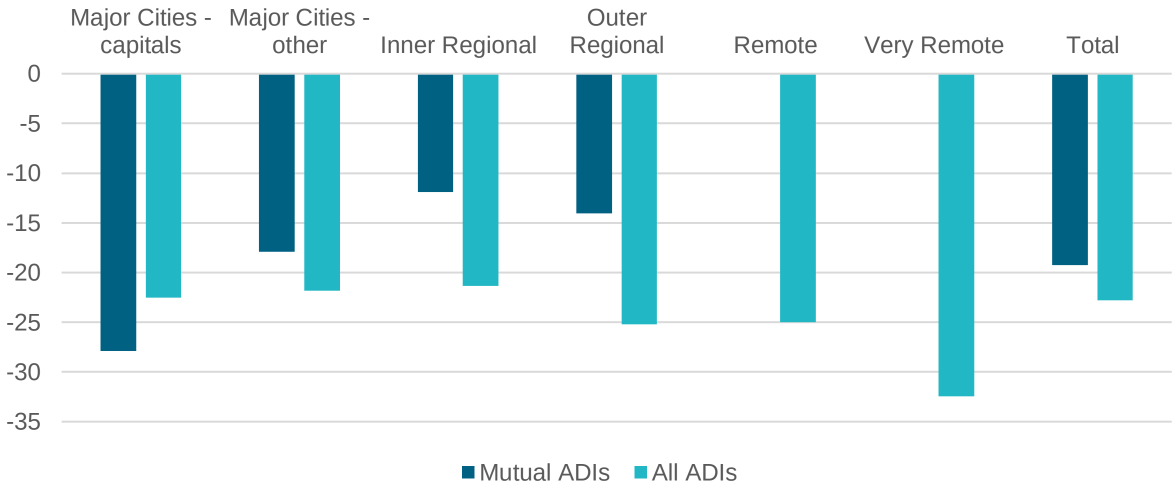
The mutual structure of a customer-owned banks means that we are more community conscious and have less commercial pressure than other banks. This is due to the fact that we do not exist to maximise profits and pay out those profits to investors. However, this does not mean that we can afford to make non-commercial returns on our activities.

While our sector's model puts people over profit, COBA members are sustainable businesses and commercial entities. While this level of 'commerciality' may not be to the extent of a profit-maximising, listed bank, customer-owned banks still need to make profits to reinvest in services for customers or to increase our capital base in order to lend more to our customers.

Customer-owned banks have a different ownership structure to other banks. In this mutual or co-operative model, customer interests are not in conflict with shareholder interests. Being solely customer focused means all profits are used to benefit customers and are delivered back into better rates, fairer fees, responsible lending and outstanding customer service.

Graph 2 shows recent changes in branch numbers for the customer-owned banking sector. In total, our sector has proportionally closed fewer branches than the broader ADI system. While this does not guarantee no more branch closures, it highlights the fact that our sector can operate differently to profit-distributing banks – to some degree.

Graph 2: Branch number changes by percentage (2017-2021)



Source: COBA estimates based on APRA's Points of Presence data

Our need to remain profitable combined with our smaller size means that we have more limited resources compared to larger banks. As a result, this means that customer-owned banks have to make difficult decisions to prioritise resources to areas that best service their broader customer base. For some COBA members, this is through investments in non-branch channels, while for others it is continuing to invest in branches – albeit fewer and/or better branches.

Ultimately, as private commercial enterprises, banks are unable to sustain ongoing banking services where it is not commercially viable to do so. For a customer-owned bank, they may be able to sustain the branches for longer on more community-conscious terms with less commercial pressure due to our model but this is not limitless and it involves a trade-off with the interests of the broader customer base. When providing these services creates a wider 'social good', Governments of all levels and communities should consider how they can support and contribute to the ongoing viability of the banking service.

Last bank in town problem

COBA members are naturally reluctant to close branches where they may be considered to be the "last bank in town" (LBIT) after the major banks have left. The LBIT problem is essentially a last mover problem where the last bank to close, while doing the right thing for the community by staying longer, takes the largest reputational hit. This may leave customer-owned banks with lesser-used branches subsidised at the expense of the broader customer base but stuck in a situation where they may not be able to close without significant reputational impacts.

COBA members have also noted that there is not a significant degree of switching when another bank leaves town so it cannot be automatically assumed that the LBIT inherits all the profitable business from departing banks. Community buy-in by switching to the remaining banks may increase the viability of remaining bank branches. There may also be scope to look at how to help these LBIT facilities transition to more sustainable models.

Predominately household-focused business models

Another critical factor to consider for regional banking policy is the more focussed business models of customer-owned banks. Our sector predominately focuses on retail household banking and as a general proposition does not engage significantly in business or farm lending. Around 85 per cent of our deposits come from households, while 97 per cent of our lending is to households. This factor is important given that business banking is one of the key drivers of this taskforce. Some customer-owned banks may have business banking operations or may be intending to grow this area, however, for the most case this activity is limited in our sector.

COBA estimates that our sector has around $2 billion in SME lending compared to over $250 billion for the major banks.[7] If the bank branch viability equation is based on market opportunity and this market opportunity is regional household and regional business activities, then the absence of a business banking operation can limit the ongoing sustainability of a regional branch.

A COBA member has noted that its branches are sometimes used by local businesses as a deposit point for cash holdings for other banks. These business customers will then transfer these funds to a larger bank the day after the deposit is made. This means that customer-owned bank incurs the cash handling costs on behalf of the other bank whilst not receiving the benefit of being able to lend out these deposits.

COBA member use of Bank@Post services

Bank@Post outlets currently play a part in providing banking services across Australia, particularly in remote or regional Australia. Bank@Post is an agency service provided to customers on behalf of banks by Government-owned Australia Post. For retail banking, it focuses on cash handling activities.

According to the Australia Post website,[8] it delivers Bank@Post services at over 3,500 post offices including more than 1,800 in rural and remote locations. There are 1,679 of these are located in "communities with no other banking presence".[9]

While Bank@Post branches may not deliver the same level of service as a bank branch, they provide a valuable alternative to the traditional branch model for cash handling in locations where branches may no longer be viable. Given the reliance of some communities on the Bank@Post model, it is important that pricing for this service is proportionate and accessible for smaller banks.

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[7] COBA estimates based on APRA data on repayments deferrals.

[8] Australia Post website (accessed 16 December 2021)

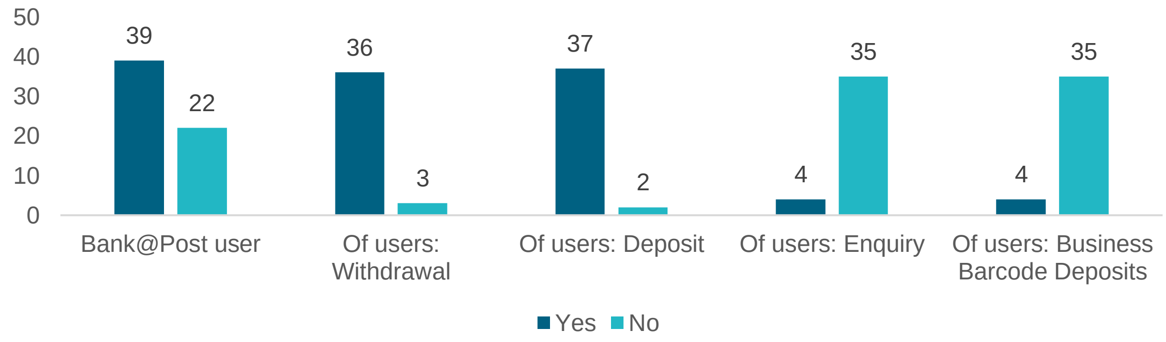
[9] Australia Post Annual Report 2021, page 35

In 2018, former Australia Post CEO Christine Holgate stated to a Senate Estimates hearing that Australia Post's Community Representation Fee (CRF) would only apply to the four major banks.[10] However, this proved not to be the case when only three of the four major banks committed to Bank@Post. This meant that much smaller customer-owned banks were required to cover this CRF which drove up costs on our sector.

Over 80 entities participate in the Bank@Post service. Around two-thirds of customer-owned banks (39 institutions) have commercial agreements with Bank@Post. For these services, customer-owned banks focus on Bank@Post's ability to allow their customers to withdraw and deposit cash from any participating Bank@Post outlet (Graph 3).

COBA understands that Australia Post is also introducing an express business deposits service and a Community Banker Program. National Australia Bank is currently piloting this Community Banker program which may rolled out to other banks.[11]

Graph 3: Customer Owned Banks use of Bank@Post and Bank@Post services (no. of COBs)



Source: COBA estimates based on Australia Post website

COBA members who do not use Bank@Post broadly fit into two categories: larger regional mutuals with larger branch networks and smaller regional mutuals.

COBA members (both users and non-users) have noted the 'all-in' proposition of Bank@Post. Not all customer-owned banks need to have access to these large networks as they may focus on particular geographical regions that are covered by their branch networks. Other COBA members note they experience duplication with their branch networks. This duplication can lead to inefficiency where transactions may be done at a Bank@Post outlet despite a proprietary bank branch being close by. This incurs an additional cost for the entity. It is important for these reasons that Bank@Post must remain optional for customer-owned banks.

Increasing regulation cost pressures diverting limited resources

The recent tsunami of regulatory change has greatly increased the cost of compliance. The mandatory and time-bound nature of regulatory compliance means that resources needed to be diverted from 'nice to haves' to regulatory, risk and compliance projects to meet legal obligations.

Allocating resources to regulatory, risk and compliance projects reduces the budgets available to pay for customer-facing improvements such as branches and digital channels. Reducing these regulatory cost pressures could free up funds for banks to invest in projects that benefit our customers, including distribution options. While customer-owned banks consider community and social benefits in their decision-making processes, constantly increasing regulatory cost pressures mean they may have to

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10 Environment and Communications Legislation Committee transcript, 23 October 2018, page 60

11 NAB Media Release, 6 June 2021

make more hard decisions on lesser-used branches given the need to maintain profitability for future growth and investment.

Mandated digital transformation

Customer-owned banks have recently incurred significant costs to introduce the systems and processes for customers to be able to share their data under Open Banking.

The Consumer Data Right (CDR), or Open Banking, is a key part of the Government's digital and data agenda. Open Banking gives consumers the ability to share banking data with accredited third parties. While still in its infancy, in future it may allow consumers to get more tailored products and switch products or banks more easily. COBA supports the intention of Open Banking.

However, this has been a hugely challenging regulatory compliance project for small ADIs because it is a regulatory change which at the same time is a significant technology transformation project. The CDR regime is novel, highly-technical, complex and elaborate, with multiple regulators and multiple layers of requirements: legislation, rules and regulations, standards and testing and onboarding processes. COBA notes that mandating data-sharing via Open Banking as we move rapidly and irreversibly into a digital economy may be inconsistent with any expectation to maintain legacy physical points of presence. Ultimately, the decision of digital or physical points should be up to banks' individual distribution strategies.

Factors that impact regional branches

Increasing digital transformation and preferences

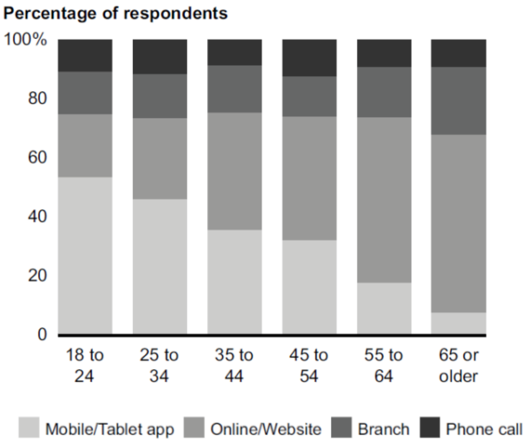
Banking is quickly evolving as the world changes. The traditional bank branch model that was once the 'one-stop shop' for bank service delivery have now shifted to a 'by exception' experience for most consumers. The introduction of ATMs in the 1980s, telephone banking the 1990s, internet banking in the 2000s, mobile banking in the 2010s and chat bots of the late 2010s have changed banking to a multi-channel model where customer needs are met without accessing a physical point of presence. Customers are no longer bound by business hours and are able to access their banking where and when they want it. This is not unique to banking. The way we access government services, shop and communicate with our loved ones is changing in this digital transition. For example, the Government recently announced a Digital Government Strategy that includes a strategic outcome aiming to have "All Government services available digitally".[12]

As the word turns digital, customers are voting with their feet. Customers are shifting towards banks that are able to provide seamless digital experiences. Banks, including customer-owned banks, need to shift to our budgets to digital investment. Unlike neobanks, customer-owned banks have existed for decades and have legacy branch networks. As more Australians move into digital banking, the economic case for branches declines as lower foot traffic reduces the relative benefits of a physical branch. As noted in the KPMG Mutuals Industry Review 2021:[13]

> "All customers are demanding more self-service solutions via multiple online platforms – a trend accelerated by COVID-19 and the shift to broker-introduced lending. As digital channel usage has increased, the relevance, reach and impact of the branch network has declined."

Given smaller banks have limited resources, the need for digital investment may require customer-owned banks to review their distribution channels and investments to ensure that their resources are deployed to areas that meet the overall customer needs. This does not mean there will be no branches in the future but rather a rebalancing from branches to multi-channel banking services from the current historical allocation.

Graph 4: Preferred Banking channels[14]



Source: Retail Banking & Insurance Survey (April 2021), n=5,082

[12] Digital Transformation Agency website (accessed 16 December 2021)

[13] KPMG Mutual Industry Review 2021 website

[14] The Customer Imperative in Financial Services, Bain and Company & Salesforce

Graph 4 shows the preferred banking channels across Australia. While there is clear consumer preference for digital channels, we must note that there are some customers who may not be able to access these digital services. COBA members have noted that this can be due to a lack of internet access, a lack of digital literacy and/or concerns regarding scams.

In terms of specific customer demographics, COBA members have noted that regional and rural customers, elderly customers, customers with physical or mental impairments and customers from diverse cultural backgrounds are more likely to be excluded from the digital transition.

Some COBA members have programs to assist their customers with the digital transition, including where this is an alternative in a branch closure situation. The Government could examine how it could assist these Australians join the digital transition to be able to access banking services within a broader digital inclusion program. Ultimately, if these customers are excluded from digital banking services, they may also be excluded from other digital services in our society.

COBA also notes that this digital shift impacts all 'bricks and mortar' retail and is not unique to bank branches or regional bank branches.

Regional populations vary across Australia

COBA members have noted that population and population growth are key drivers of branch viability. The market opportunity may also be lower for smaller banks who do not may have the larger customer bases of the major banks or those who do not do business lending. It is no surprise that population growth varies across Australia. Table 2 shows population growth rates by state and remoteness classification.

Table 2: Australian Population Growth by Remoteness and State (2010-2020) – cumulative %

	Australia	NSW	Victoria	QLD	SA	WA
Major Cities	19.9	16.8	25.3	22.7	9.6	19.2
Inner Regional	12.4	9.9	16.3	11.7	13.4	17.2
Outer Regional	4.8	0.8	3.8	8.4	1.3	1.2
Remote	-2.7	-10.7	-6.8	-5.8	1.8	2.2
Very Remote	-3.1	-11.4	NA	-3.7	-7.7	-3.9
Total	16.6	14.3	22.6	17.5	8.8	16.3

Source: COBA estimates based on [ABS Regional Population statistics]

There are significant differences in growth rates for Australia's major cities and inner regional Australia compared to more remote regions. While there is the potential that the 'great relocation' and increased work from home opportunities will spread the growth more widely, it is yet to be seen whether this growth is going to outer regional Australia or satellite cities in inner regional Australia.

This data shows the difficulty of sustaining traditional branches in outer regional Australia and beyond as population growth falls behind the major cities and inner regional Australia. Combined with decreased branch usage from digital transition, the viability of traditional branches continues to decline as the minimum viable population threshold for a branch increases. These areas may also have difficult sustaining other government services as well. Ensuring that these areas are able to access banking services, and other services, is likely to need innovative and tailored solutions.

Innovative responses to fill gaps

The use of digital channels, internet & phone banking, Bank@Post and ATMs can cover a wide range of banking services in both face-to-face (F2F) and non-face to face formats.[15] Some of these channels rely upon having both physical access to the internet and customers having the digital capability to use these channels.

The financial sector has innovated over the years to deliver banking services to communities where a traditional branch may no longer be commercially viable. Many of these services assist communities to have access/deposit cash or deal with more complex and tailored inquiries.

Options that could or have been considered to fill these gaps include:

- enhancing online banking – such as video calls and chat bots
- automating access to cash – fee-free ATMs and Smart ATMs
- using mortgage brokers
- using local businesses or councils acting as agents
- using bank-employed mobile lenders
- potentially sharing of premises between multiple banks, and
- potentially having mobile branches/offices that can travel to underserved communities.

Some form of community-led F2F or assisted digital service could fill the gaps where a community desires a level of banking services above what is currently on offer. These services may be more permanent in nature or alternatively time-limited to cover the gaps as we transition to the digital economy and society.

COBA member innovation examples

We have outlined a number of case studies below where COBA members have worked creatively with communities to provide banking services to meet community needs.

[15] See Table 1 in Regional Banking Taskforce Issues Paper

The Capricornian – working with councils to fill gaps

Central Queensland-based credit union The Capricornian has worked with local councils to find a solution for communities faced with the prospect of living without branch-based banking services. By partnering with local councils, and operating from council buildings, The Capricornian has found a solution that allows local residents ongoing access to in-person banking services.

In August 2021, The Capricornian opened its new branch in Capella, just under 900 kilometres north-west of Brisbane and around 300 kilometres west of Rockhampton.

The branch, which is located inside the Central Highlands Regional Council offices, was opened in response to the announcement that National Australia Bank was closing its Capella branch on August 20, leaving the local community without a banking service.

The new branch will allow convenient, in-person banking services for not only the residents of Capella, which is home to just over 1,000 people, but also to nearby communities including Clermont and Tieri which are currently without banking services.

This model shows how banks with collaboration and buy-in from local government can assist in delivering banking services.

Unity Bank – CreditCare-supported agencies

Sydney-based Unity Bank has three agencies in the Central West NSW region that were born out of the CreditCare model. These agencies are in the NSW towns of Trundle, Eugowra, and Gulargambone. Unity Bank has a core industrial base, complemented with a large regional membership, predominantly in NSW, Queensland and Western Australia.

CreditCare started in June 1995 as a partnership between credit unions and the Commonwealth to use the self-help and community focus of credit unions to meet the challenge of providing financial services in “no bank” towns. The Government funded a network of CreditCare Field Officers, who were employed through CUSCAL. These officers had experience in financial services and were employed to work with communities and local Government to bring financial services back to their town and get their proposals ‘over the line’.

The model relied upon the local community identifying local business that were prepared to provide premises and staff who would undertake transaction processing and provide basic banking information on behalf of the mutual bank. The bank provides all of the equipment, staff training and cash delivery to the local business and pays that business a transaction fee and percentage of the loan and savings balances. However, the model did not cover any start-up costs, seed funding or ongoing operational cost contributions. This was identified as a “real constraint” on the capacity of the program.

A successful outcome from this model requires the support and willingness of the mutual bank to continue to subsidise this agency arrangement as well as the collaboration of the local community and businesses. Local and Federal Governments are no longer participants in the program following the end of funding for the program.

Unity Bank also has a branch where their staff provide some limited information and brochures on behalf of Government agencies to cover some of the branch operating costs. This arrangement is with Human Services (Centrelink) and NSW Roads and Maritime Services. The revenue for providing these services is used to defray the costs of running the banking part of this location.

Heritage Bank Community Branch Model – buy-in from the community

Toowoomba-based Heritage Bank operates seven Community Branches based on a model where Heritage Bank and the local community work together to establish a branch that retains banking services in the local area.

This model involves community members forming a community-based company made up of a range of investors from the local area to be the joint-venture partner in establishing the new branch with Heritage. To encourage community buy-in, investment is encouraged from all community members and can be as little as $100. Heritage and the community company contribute to the set-up costs and share ongoing expenses. Heritage operates the branches but the community company plays a key role in helping to promote the Community Branch. Heritage Community Branches are full service branches offering the same services and products of their other Heritage Bank branches. Any branch profits are shared between the community company and Heritage.

An important characteristic of this model is that community company investors are not seeking to earn ongoing profits for personal investment returns, but rather to distribute the community company's share of profits to their local community. Community company investor funds can be repaid after the branch becomes profitable. While the community company will generally seek to repay investors back as soon as they can, they may also choose to provide small scale community grants before paying investors back. The more the community use and bank through the branch the quicker the payback period is and the return of their initial investment. Once the investment is repaid, this allows the branch to become a true Community Branch with all the future profits being shared between Heritage and the community company. The directors of the community company act in a voluntary capacity and their charter is to return their share of the profits back into the community.

The community company distributes its share of profits primarily via grants to support charities, sporting clubs and other deserving local organisations. The more that local residents use the Community Branch, the greater the profit, and the more the community benefits through grants being made to local organisations. This creates an incentive for communities to support their Community Branch. In addition, these local communities benefit by keeping access to a local face-to-face bank branch, through the jobs the branch creates, and through the other local services it supports.

The success of the Heritage model is evidenced by their first two community branches, Crows Nest, Queensland (population approx. 2100) and Nanango, Queensland (population approx. 3800) which have both been established for over 20 years. These two community branches alone, through staff employment and local service support, have contributed in excess of $22 million back into their local communities of which more than $11 million has been directly available for grants, sponsorships or capital projects that support their communities.

Significant capital projects in these local communities have only been made possible due to the contributions of these branches and include, beautification of their town squares, the purchase of neighbouring land to protect its conservation value, and the investment in assisted living and independent disability housing.

The Heritage Bank Community Branch model is a true partnership between Heritage and the community. Heritage is actively looking at more innovative ways to enable faster establishment and community payback so that more communities experience the benefits. One path is to investigate if there are other partners that can fund or partially fund the branch establishment. Doing so would allow the branches to be in a position to service the community and to contribute grants to the community much sooner.

The below link is a story about Nanango which appeared on the Today Show in October 2021. It exemplifies what a Heritage Community Branch is all about.
https://www.facebook.com/watch/?v=203497105222650&ref=sharing

Cash handling

One of the key gaps with digital channels is the access to, and capacity to deposit, physical cash. The RBA notes that cash use is declining with the share of retail payments made by cash declining from 69 per cent in 2007 to 27 per cent in 2019.[16]

According to the RBA, high cash users are more likely to be older, have lower household income, live in regional areas, and/or have limited internet access. COBA members have noted that unfamiliarity with digital payments methods as well as a lack of telecommunications access for EFTPOS terminals hinders the uptake of digital banking.

The RBA is currently reviewing banknote distribution arrangements to "best support the sustainability of cash distribution and ongoing access to cash across the country". [17] This RBA review may be relevant for any cash access solutions considered by the taskforce. In addition, given the cash access element, it may be worthwhile examining any innovative cash access options from the cash in transit industry.

UK experience

In the UK, the House of Commons' 2020 *Bank Branches: Why are they closing and what is the impact* report looked at similar issues to those before the task force. The Report outlined a number of examples where banks had innovated with different service propositions:[18]

> Banks are also experimenting with different ways to deliver physical services such as:
>
> - Service only branches: focused on processing simple transactions quickly, with several self-service machines and limited or no counter services. Such branches may need fewer staff than traditional ones.
> - Advisory branches: focused on meeting customers' more complex financial needs and building relationships with them.
> - Community branches: focused on both advisory and daily banking services.
> - Mobile branches: banking being provided from vans scheduled to visit different communities.
> - Shared facilities: In March 2019, NatWest, Lloyds Bank and Barclays started a pilot for 'business banking hubs', which will enable certain local business customers to pay in cash and cheques and complete cash exchange transactions.
> - Reduced opening times for branches.

In the UK, they also have an arrangement to deliver banking services via post offices, which includes all the high street banks (i.e. equivalents of Australia's majors).[19] The UK is also trialling community hubs where a post office premises is used to have a "a member of staff from a different bank to come into the hub once a week to help with trickier transactions."[20]

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[16] RBA Review of Banknote Distribution Arrangements Issues Paper, page 3

[17] RBA Review of Banknote Distribution Arrangements: Issues Paper media release, 15 November 2021

[18] Bank branches: why are they closing and what is the impact?

[19] UK Post Office website

[20] Trials of shared banking hubs to be extended, 23 August 2021

Potential Policy Responses

Digital inclusion for regional communities

Improve the digital capabilities and digital access of regional communities and regional businesses.

The use of digital banking services is only going to increase as cash use decreases and more services are brought online. However, there is still a significant cohort of people, particularly in regional and rural areas, who are not fully participating in the digital transition. Digital inclusion is a significant challenge for vulnerable customers who typically rely more heavily on bank branch accessibility. Digital inclusion should form part of any strategy aimed at addressing issues around banking accessibility.

The responsibility for digital inclusion is obviously not limited to the banking sector with many services, including Government services, now delivered digital by default. This proposal would include both digital financial capability development and increasing access to telecommunications infrastructure to enable digital capability.

Fair access to Bank@Post

Ensure fair access to Bank@Post for customer-owned banks. This access must be optional for customer-owned banks.

If Bank@Post is proposed as a key part of the regional banking infrastructure, then it must be accessible to all ADIs irrespective of their size. This means that there should be fair pricing and access for customer-owned banks. This access should also recognise the risk of increasing prices over time and the difficulty that smaller banks may have with exiting from Bank@Post if these costs become unsustainable.

Bank@Post must remain optional for all customer-owned banks. While two-thirds of customer-owned banks use Bank@Post, the remainder choose not to. COBA members draw attention to the 'all-in' proposition of Bank@Post. While it provides access to 3,500 Bank@Post outlines, not all banks need to 'be' in all these locations. In addition, some COBA members have noted duplication with their existing branch networks which drives up costs when customers use Bank@Post outlets near their existing branches.

Encouraging 'self help' and innovative responses

Financially incentivising local governments and/or community groups to work together with banks to address any remaining banking gaps.

Individual communities need individual solutions. The Government could financially incentivise and support local councils and community groups to take a 'self help' approach and work together with banks to address banking service gaps. This would encourage innovation and assist communities to develop their own solutions that are appropriate for their particular circumstances.

These incentives could take several forms including seed funding, matched funding, or grants to fund feasibility studies, infrastructure or other one-off costs. This proposal would require 'skin in the game' from communities and councils to ensure that there is community buy-in and ownership into the viability and sustainability of any solutions.

Further development of this idea would need to consider how it could support the 'last bank in town' branches, not subsidise shareholder-owned banks, crowd-in investment, utilise Government loans or guarantees, provide other services and address the reality that any solutions may only be temporary in nature as digital transition continues. The Government could also consider how to provide expertise for communities to develop their proposals.

Examining Local Government partnerships

Exploring how local governments can partner with banks and communities to ensure the viability and sustainability of banking services in regional communities.

Local governments are already supporting regional communities in a myriad of ways and could form part of the response to regional banking accessibility. For example, as outlined in our case studies The Capricornian has partnered with a local council in central Queensland to set up a branch in the council building.

Further proposal development would need to consider the level of reliance upon the local government partner, use of existing council assets, regulatory relief requirements, council permit processes, any necessary financial support from State or Federal Governments, potential for digital literacy programs and potential for co-location with other Government services.