

The Social Obligations of Australia's finance sector

Introduction

The ability to participate in financial systems is integral to participating in our society. Yet financial services are becoming more and more limited to certain sectors of society, thus limiting the ability of many to gain full benefit from society.

In many instances services are being made unavailable, difficult to access or priced out of reach of many communities and individuals. Rural communities and those on low incomes have been hardest hit.

Experience has shown us that many Australian financial institutions do not fully acknowledge the existence or need for social obligations to the community from which they draw their wealth. Focus within the sector has been almost solely on the pursuit of short-term profit. As a result, the sector does not work together to develop longer term planning or a deeper assessment of both its own needs and those of the community.

The FSU believes that the most effective method to address these problems is by means of legislation which would require these institutions to acknowledge the needs of the communities in which they operate and to actively address their social obligations.

An era of change in the finance sector

The finance industry in Australia and in the world has been going through unprecedented changes in the last 10 years. The liberalisation in trade and capital, the deregulation of the finance industry, changes in technology and increased emphasis on shareholder return have all contributed to this changing face of the industry.

Strong results have enabled some Australian banks to consolidate and become some of the largest players in the global financial sector. In a nation of shareholders, these high profits have also resulted in excellent returns for bank investors. Many also cite the benefits that these changes have brought to the customer including longer banking hours, more advantages of ATM access and Internet banking.

Promise of better banking not delivered

Many promises were made about the outcomes of these changes. Deregulation was to lead to increased competition; increased competition was to lead to increased choice and better service. Better service was also to result from the management restructuring and changes in service delivery. Streamlined structures and electronic modes of delivery while painful in the short-term were to lead to greater job security, better wages and better training for staff. With more secure, better trained and well paid staff, better customer service was to follow.

Proponents of these arguments stated that these changes were necessary in order for Australia and Australians to be included in the global marketplace.

It is increasingly clear, however that the price for inclusion on the world stage has led to the exclusion of ordinary Australians:

- Instead of increased competition Australia has one of the most highly concentrated banking markets in the world which results in less choice for the consumer.
- Instead of better service Australian bank customers have witnessed the closure of over 2,000 branches in 8 years, and increased fees.
- Instead of improved customer service levels, standards have fallen as a result of 40,000 staff lost,
- Instead of cheaper banking, bank fees and charges have increased

For most Australians information about fees and charges is too confusing and the most vulnerable Australians including pensioners, people with disabilities, indigenous Australians and people on low income find banking services increasingly difficult to access. It is these groups who are faced with fees and charges, while people with high balances or are members of professional associations pay no fees.

The push for social obligations for the finance sector

The result of these negative outcomes is a growing consensus within the community, that banks, like telephone and utility services, should also be covered by customer service obligations.

The Finance Sector Union and major consumer groups support the introduction of a “social charter” for Australia’s banks. The FSU believes further that such a charter should be imposed on the banks by legislation.

The need for legislative backing arises from the poor response of the banks to community concerns and the weakness of their current Code of Practice. While some banks have only recently developed their sense of social obligations, these responses have, to date, been very limited and only scratch the surface regarding community needs.

Weak response from government.

The federal government has largely ignored the recommendations of several inquiries that relate to financial sector obligation issues. Initiatives designed to address the financial services access deficit such as Rural Transaction Centres and delivery of services in Post Offices are limited in number and lack the range of services people and businesses require.

Policies from all major parties fail to mention the finance sectors obligations to staff, to customers in relation to customer service or to communities and, because of this, fall well short of proposing initiatives to address the issues.

For all of these reasons the time is now for a comprehensive policy to address the wide range of issues that are relate to the social obligations of the finance sector.

Defining Social obligations

Because financial services are essential services banks and other finance sector organisations have unique social obligations.

These obligations have been outlined previously in the FSU Framework for social obligations for the finance sector. Banks have social obligations to the following groups:

Group	Issues
Communities and Customers	<ul style="list-style-type: none">• access and investment,• access to services for all,• security and trust,• choice,• service level,• closer ties with the community,• better communication and information
Staff	<ul style="list-style-type: none">• Safe, fair, productive environment,• adequate staffing levels,• balance of work and family life,• rights to be part of a union,• support to adapt to changing nature of work• Skills, training and employability
Shareholders and Industry	<ul style="list-style-type: none">• corporate governance and corporate citizenship, Health of industry both nationally and internationally;• developing employability of the workforce,• ensure that changes to promote the industry's place globally do not disrupt the political, economic and stability on which the sector's success depends,

Is the Finance Sector meeting these obligations?

The facts on Branch Closures

- 2,044 branches closed between 1993 and 2000
- This is about five branches a week for seven years
- 794 rural and regional branches closed.
- This is about two country branches a week for seven years.
- 1,250 metropolitan branches closed
- NSW lost 729 branches
- Victoria lost 766 branches
- QLD lost 165 branches
- SA lost 151 branches
- WA lost 184 branches
- Tasmania lost 40 branches

Table 5: Branch Numbers by State 1993 - 2000

	NSW		VIC		QLD		SA		WA	
	1993	2000	1993	2000	1993	2000	1993	2000	1993	2000
Metropolitan	1397	979	1294	759	542	416	338	229	402	303
Elsewhere	1042	731	689	458	576	537	239	197	242	157
Total	2439	1710	1983	1217	1118	953	577	426	644	460
% change Metropolitan	-30%		-41%		-23%		-32%		-24%	
% change Elsewhere	-30%		-34%		-7%		-7%		-35%	
% change Total	-30%		-39%		-15%		-26%		-29%	

	Tasmania		NT		ACT	
	1993	2000	1993	2000	1993	2000
Metropolitan	60	101	19	23	106	78
Elsewhere	102	21	15	17	1	4
Total	162	122	24	40	107	82
% change Metropolitan	+68%		+35%		-27%	
% change Elsewhere	-80%		+13%		+400%	
% change Total	-25%		+66%		-23%	

Economic Impact of branch closures

Bank branch closures have been the most noticeable indication of the decline in face to face customer access. Both metropolitan and rural communities have felt the impact of these closures. However for many small rural communities these services were lost altogether.

Small Rural towns are hardest hit

- Towns with populations of less than 1,000 account for over 50 per cent of towns where banks have closed their only branch in town.
- Towns with populations of less than 600 account for nearly 44 per cent¹.

The impact of bank branch closures go far beyond mere thresholds and consumer choice and alternatives but may impact the long-term economic viability of the town.

Decline in Community Investment

One study of branch closure found that people decrease their average expenditure per month in their local town by \$320 as a result of the result of the last bank branch closing².

Another study found that bank closures in NSW resulted in a 20 per cent fall-off in trading at local supermarkets.³

One town estimated that it lost \$60,000 worth of business because it did not have a bank. Another town estimated that 10 to 15 per cent of retail revenues had been wiped out since the bank closed⁴.

The *Inquiry into Alternative Means of Providing Banking Service in Regional Australia* report⁵ found that

[A branch closure] appears to be more than a loss of confidence in the economy of the town. Banks have traditionally had high standing as local institutions in country towns and represent for their community, at least symbolically, solidarity and prosperity. They are perceived to be pillars not only of the economic fabric of towns but of the social fabric as well. The loss of personnel is a significant loss in terms of social capital....⁶

¹ Report from the House of Representatives Standing Committee on Economics, Finance and Public Administration, *Regional Banking Services: Money too far away*, March 1999

² Beal, D. and Ralston D. *Economic and Social impacts of the Closure of the Only Bank Branch in Rural Communities*, 1997 in *Money to far away*, op cit

³ *Money too far away*, op cit

⁴ *ibid*

⁵ *Money to far away*, op cit, p 26-32

⁶ *ibid*, p 29

Case Study: Ivanhoe NSW

In the FSU's submission to the Inquiry into Australian Financial Services it drew attention to the impact of branch closures in rural Australia:

In Ivanhoe, NSW, a town located 160 kilometres from any other town with banking services, the Commonwealth Bank closed the only remaining branch. Six employees, including one part time employee, lost their livelihoods. Many of the community members had been employed at the branch as their initial entry into the workforce. The Branch manager was the Mayor and participated in over a dozen community committees in the town. Other staff also played prominent roles in community activities. The impact of the closure extended beyond the impact on the employees to the broader community. Typical impacts of closures in such towns include the loss of families, employment opportunities, withdrawal of children from schools, reduced business and shopping turnover and the elimination of banking services for the whole community.⁷

Jobs lost in areas of high unemployment

FSU estimates show that for every regional bank branch closure at least 4 people lose their job. Based on this, since 1993, nearly 3,000 people in regional areas have lost their jobs because of bank branch closure. That averages out to about 430 people per year in areas that already have an unemployment rate.

In addition to this direct loss of jobs, other jobs may be lost due to the negative impacts on the economy of the community that are a result of bank branches closing. In a small town the impact of job loss is likely to be exaggerated as choices for alternative employment are limited and often may be limited to seasonal farm work.

Declining Customer Service

Contrary to all the claims made by the banks about the convenience of electronic banking, there is overwhelming evidence that customers have a strong preference for over the counter service within a bank branch. In the face of clear community opposition to branch closure, banks have continued to rationalise their retail structures and use high fees and charges to drive customers away from their preferred method of banking.

⁷ FSU Submission to FSI, op cit, p 20

People prefer face to face service

- While EFTPOS and ATMs do offer extended services, there is a considerable body of evidence that indicates that people are still reliant on 'face to face' banking⁸. A recent survey of *Choice* magazine readers found that 88% used bank branches at some point.⁹
- Internet for banking is not a reality in rural Australia. Beyond the fact that many individuals still need access to 'face to face banking as delivered by the branch network'¹⁰, some surveys suggest that access to the Internet is an issue for these potential customers.
- One survey found that while 30% of rural, regional and remote respondents had a computer, 90 % had never used the Internet. Of those respondents who had used the Internet only 4% had ever used it several times.¹¹ ABS statistics show that only 8% of those outside capital cities had household access to the Internet.¹² Finally very few people use the Internet as a source of financial services. ABS statistics show that in the three months to February 1998 only 0.3% of those adults using the Internet paid bills or transferred funds via the Internet.¹³

In addition, the Price Waterhouse Coopers annual survey of Customer Attitudes to Financial Services over the Internet lends further direct support to these findings. The survey found that:

- In 1998, 67% of respondents were not comfortable if financial products and services are only available over the Internet. By 1999 this number had *increased* to 70%
- In 1998, 66% of respondents were not comfortable about providing personal details over the Internet. By 1999 this number had *increased* to 71%
- 76% of all respondents knew nothing or little about financial services available over the Internet. This position remained unchanged.
- In 1998, 91% of respondents said they needed a good or very good knowledge of the institution before using its products or services over the net. By 1999 this number had *increased* to 95%.¹⁴

⁸ See House of Representatives Standing Committee on Economics, Finance and Public Administration, Regional Banking Service - Money too far away, March 1999 and Financial Services Inquiry Report, March 1997

⁹ 'Disappearing Acts' The Age, 27/3/00

¹⁰ Money too far away, op cit, p 33

¹¹ From Department of Industry, Science and Tourism, The Consumer Education Needs of Rural and Remote Australians, AGPS September 1997 quoted in Money too far away, op cit, p 78

¹² Australian Bureau of Statistics, Use of the Internet by Householders, Cat no 8147.0

¹³ *ibid.*

¹⁴ PriceWaterhouseCoopers, Customer Attitudes to Financial Services over the Internet, 1999

Better staffing means better customer service

Finance sector institutions' increasingly poor relationship with customers has not been solely due to the closure of branches. The dramatic reduction in the number of frontline staff in branches is also adding to the dissatisfaction and stress within this relationship.

Front line staff can only provide the best possible service where this is not impeded by workplace strain and heavy workloads caused by inadequate staffing levels. Staff bear the brunt of the banks poor image and unjust decisions and at the same time are expected to endure high levels of stress.

The large numbers of jobs that are being shed through industry restructuring and mergers has been accompanied by excessive amounts of overtime (or overwork) within the remaining workforce.

High levels of workplace stress, job dissatisfaction and unnecessarily high quit rates provide little basis for the highly motivated, skilled and loyal workforce necessary to maximise Australia's competitive advantages.

Bank Staff are suffering from increased stress due to abuse from customers about increasing fees.

- ❑ In a recent survey, 60% of bank staff agreed that their job had become more stressful because of customer complaints about fees.
- ❑ 65% of staff thought that customers expect a higher standard of service because of fees, but understaffing makes it harder to deliver.
- ❑ Approximately 976,868 hours of overtime is worked in the finance sector each week.
- ❑ This is the equivalent of 24, 421 extra full time jobs (40 hours per week).

A parliamentary inquiry into the level of electronic fees found that there was substantial evidence showing that the banks underpriced electronic transactions as a way of attracting customers. Once a large base of customers had moved to them away from over the counter transactions, the fees increase dramatically.

Forcing customers away from over the counter transactions threatens the jobs of branch staff. As one FSU member put it, "If the bank is charging all these fees, why can't they afford to keep me in a job?" And another comment "Not a day goes by in the bank that I don't get told off by a customer about fees and charges. I should be getting an abuse allowance"

What's being done about it – why Current Responses are failing

Rural Transaction Centres

Limited options: Rural Transaction centres

The Rural Transaction Centres Programme is the Federal Government response to the issue of decline of services in rural and regional areas. The RTC Programme is aimed at towns with a population of less than 3,000 that are without access to basic banking services.

The federal government has promised to use revenue from the sale of Telstra to finance the establishment of Rural Transaction Centres. To date, over 2,000 branches have closed across Australia but only 18 RTC has been established.

In Victoria, for example, there is currently only one operational RTC and this is in Welshpool. There have been 22 other centres approved for some funding under the programme but which are not yet operational. This presumably means that these communities are all currently lacking basic banking and other government services.

- ❑ As with RTCs, post office outlets do not provide the safety or the full range of services customers require.
- ❑ GiroPost, Rural Transaction Centres and other in-store transaction points offer a very limited range of facilities
- ❑ All GiroPost only offer Withdrawals, deposits. Only CBA customers can be serviced in manual Post Offices. Basic services such as checking your account balance can only be offered to customers of some banks.
- ❑ GiroPost also warns that it may take longer than 3 days to have a cheque clear and
- ❑ Ezybank and Rural Transaction Centres also only offer very basic services.

While these options may offer a 'basic' service point they do not meet the full needs of a normal personal banking customer, let alone what is needed by a small business (for example loans, financial advice or other business services)

Community Banking

One alternative, Bendigo's Community Banks do offer a range of services. While it is impressive and even inspiring that there are 30 Community Banks in Australia, it is difficult to see how this scheme will fill the service need gaps of more than 2,000 branches that have closed since 1993.

- ❑ The 18 Rural Transaction Centres and 30 community banks do not fill the gap left by the closure of over 2,000 bank branches.

What can be done?

Regulation of the finance sector

Australia is not alone in its concerns for these issues, just in its inaction.

There is clear evidence that the debate in Australia has changed from 'if' the finance sector has social obligations to 'how' to ensure that the finance sector meets those obligations. As expected in the global industry, these issues are being considered and dealt with all around the world.

There are now a number of models for dealing with these issues, where stronger regulation has been successfully introduced.

ONE EXAMPLE

Community Reinvestment Act (USA)

The Community Reinvestment Act is a federal regulatory regime within the United States, which is aimed at encouraging financial institutions to meet the credit and service needs of the entire community.

The CRA was passed in 1977 during Carter administration as a result of concerns raised in the community that certain poorer neighbourhoods were being denied access to lending and services.

Community groups argued that banks were using deposits made in poorer neighbourhoods to fund loans in the wealthier suburbs and that this divestment should be replaced by reinvestment of the community's money back into the community.

The CRA requires that the record of each bank in the three areas be evaluated periodically by the relevant federal agencies: lending, investment and service.

FSU social charter for the finance sector– the need for legislation

The FSU supports the introduction of a social charter for Australia's finance sector that is backed by legislation.

Unless banks are legally required to address social obligations to the community, there is little evidence to show that the banks will voluntarily alter the way they operate to meet community concerns. On the contrary, the banking industry has a history of showing only neglect and contempt for the needs of both their employees and customers.

The FSU believes that the federal government should examine the issuing and renewal of banking licences with compliance with a social charter.

Below are provisions of such a social charter.

1. Stemming the tide of Branch closure

A new Branch closure protocol should be introduced to establish the process that should be adopted by the banks where a branch closure is proposed. This protocol should require the following elements as a minimum:

a) **A notice period of six months**

A notice period of six months will be provided to staff and the community in both rural and metropolitan areas where a branch closure is being proposed.

b) The provision of an impact statement

An impact statement must be produced which outlines the reasons for closing the office and gives fair calculations on costing and shows that the company has made a fair assessment of alternatives to closure. The statement will provide a full assessment of any alternative means of providing these services including access issues and the affect on local economies.

c) Genuine consultation with the affected community

The bank will cooperate with the community, and provide any necessary information through their impact statements, to allow them to make adequate transitional and alternative arrangements and to give the community the opportunity, where desirable, to make any changes necessary to ensure continued viability.

d) The implementation of a staff assistance program

Staff should be provided with a high level of individual assistance and access to resources and training, enabling them to be re-deployed or gain other meaningful employment, and to assist any staff in dealing with redundancy issues. The workforce and the unions must be consulted. The impact of any job losses should be assessed, particularly within rural communities.

2. New consultative forum

A new consultative forum, the Financial Services Advisory Board, should be established to assess customer satisfaction and monitor the implementation of the social charter on a six monthly basis.

The FSAB will include representation from consumers, small business and unions.

3. Ensuring access for all

Banks should be assisting disadvantaged groups through lending and funding and developing initiatives to improve access to banking services for low income, older people and people with disabilities.

To ensure everyone has access to our financial system. Australia's banks must provide:

- Fee free, no frills banking accounts available to all social security recipients;
- Low fee no free banks accounts for all members of the community;
- Such accounts should be publicised widely and staff encouraged to offer the product where appropriate;
- annual reports that list details on assistance provided to, and lending levels to, rural communities, small business and low income.

4. Improving customer relationships through better communication

The poor image suffered by the banks is very much a result of the negligible efforts made by banks to communicate and consult with customers and the public at large.

A greater investment in providing an open and transparent exchange of information would assist in restoring a relationship of trust and respect between the banks, their customers and the general public.

- Banks should be providing details on their branch network to the public on the range of services provided on a face to face basis in rural and metropolitan areas and the quality, quantity and accessibility of service-delivery systems in each region.
- Annual reports should contain a record of opening and closing of branches and details of company intentions concerning their retail offices for the coming year.

5. Proper staffing means better service

The finance sector must employ sufficient staff all areas of banking to ensure customer service standards are met and all employees are fully trained in the products, services they offer and ethical standards they are required to meet by law.

To deliver on this key area the finance sector must:

- Implement transparent staffing practices to enable public scrutiny of staffing arrangements and customer service standards
- Provide on the job training for staff to ensure compliance with the training of the new licensing regime before federal parliament
- Employ sufficient staff to allow end the excessive overtime the industry demands of bank employees
- Ensure sales targets and performance measures set for employees are achievable within standard working hours
- Ensure that banks service fees and charges paid by customers genuinely deliver high quality customer service.

6. Protecting the community from corporate collapse

The string of major corporate failures such as HIH and One.Tel indicate serious failings in the system of prudential regulation and intervention which have left thousands of Australians worse off. The federal government must act to:

- Demand far greater accountability from our corporate leaders to ensure the savings and entitlements of citizens are not put at risk by corporate negligence and greed.
- Review the role and powers of Australia's corporate regulator to protect Australians and where necessary broaden and strengthen its investigative powers.
- Tighten corporate reporting requirements and auditing measures to more effectively alert investors as to the performance of companies.
- Introduce a nationally funded levy on employers to protect workers' entitlements in the event of corporate collapse.
- In the event of a corporate collapse, ensure that any bonuses paid to Directors of the company concerned in the past 12 months must be surrendered.

7. Protecting jobs and investing in people

Although the industry is growing and record profits are being made, constant restructuring has already resulted in the loss of 40,000 employees in the sector who have been left with few readily transferable skills and no job.

Despite widespread understaffing and excessive amounts of overtime being worked in the industry, the banks continue to shed jobs in the thousands every year.

The banks need to do much more to retain staff and create new employment rather than destroy jobs, retrench staff and overload those who remain.

The federal government should work with the industry to ensure jobs are retained and a greater investment is made in developing Australia as a financial hub offering a highly skilled, motivated finance workforce.

- The finance sector must report to the Financial Services Advisory Board on skill development and employability. The banks must be made to assess and report their future skill needs on an annual basis, and asked to report on the actions they are undertaking to maintain the employability of their workers.
- A Government/industry/union body should be set up to encourage re-employment into the finance industry and support finance workers who have been displaced by providing individually tailored, finance specific information about courses and employment options in different companies. This body should also establish a staff assistance program funded by employers to assist displaced workers by:
 - a) Helping workers find and get referred to vacancies
 - b) Helping workers and enterprises access the different types of assistance available
 - c) Communicating with training providers and other agencies to develop training plans for workers in areas where those skills are in demand
 - d) Reporting to government and back to employers the effectiveness of services provided and strategies that may overcome any barriers the program is facing
 - e) Meeting with regional bodies and local governments to help the process of structural adjustment progress in the best possible way.

8. Bank Mergers and Acquisitions: Protecting the public interest

Merger activity between our four major banks would accelerate the push for restructuring, branch closures and job loss and further reduce competition and choice for consumers

For the social charter to operate effectively it is vital that the federal government retains the prohibition on mergers between Australia's four major banks, known as the "four pillars policy"

The process by which mergers, takeovers and acquisitions within the finance sector are approved must also be strengthened and made transparent to ensure the interests of the public are fully considered when proposed mergers are being evaluated.

- a Public Interest Impact Assessment (PIIA) process must be established before major industry mergers and acquisitions can be approved by the government.
- the PIIA process must include the following elements:
 - Steps to investigate how the merger would impact on employment and communities.
 - A period for public consultation.
 - The power to block a merger that is not in the public interest as defined by PIIA.
 - Clear guidelines for developing meaningful undertakings designed to minimise the negative impacts of a merger.
 - A process for evaluating the implementation and outcome of any undertakings.
 - Enforcement measures if conditions under which a merger is approved are not met.
- The establishment of a taskforce of key stakeholders including the FSU, consumer and community organisations to develop the PIIA process.

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