Regional Banking Taskforce

Submission to Issues Paper by Precinct Hub Pty Limited

December 2021

precinct access network
sustainable access to your bank

Executive Summary

The ongoing delivery of services to regional and remote communities in Australia is rightly a priority for the Government. A key component of those services is banking, and the ongoing access to physical banking services – branches and ATMs, is an important feature of that service landscape. We commend the Taskforce for the initiative shown in properly investigating the current situation in relation to regional banking, and the desire to ensure suitable services and models are provided to regional communities into the future.

We have been working on regional banking solutions for many years now; our global parent has deployed multibank and monobank physical banking solutions in a number of countries for well over a decade, and locally this has been a focus for what is now the Precinct business for some years. We believe that we have a well-informed understanding of the challenges that both the banking industry and the community face, and the solution we have developed and are now piloting will be an important consideration for a potential future-state for regional banking.

Within this response we provide background that points to a number of specific recommendations:

- That the Government consider policy in relation to non-exclusive arrangements being mandated for banks in relation to ATM access
- That the Government consider policy that will support the development of new and alternate physical banking service models
- That Australia Post be required to remove clause 12(d) from all existing and new LPO agreements
- That the implications for financial crime be more fully considered by AUSTRAC in relation to outsource arrangements and agency banking, specifically the practical risks of agency arrangements and moving banks one step further away from deposit activities

We thank the Taskforce for the opportunity to provide a response, and we would welcome any discussion or further engagement as you see fit.

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1 Introduction

Precinct is in the initial phases of rolling out a network of all-in-one financial management hubs throughout Australia. We believe in the near-term Precinct can address the challenges of regional banking accessibility posed by bank branch closure and in the provide the face-to-face services offered by bank branches in regional and rural Australia.

Precinct is in its initial roll out phase with a live trial of the hub offering underway in the Gold Coast. We present this submission to the Regional Banking Taskforce to highlight the opportunity to address regional banking needs presented by innovations like Precinct.

1.1 Who is Precinct?

Precinct is a new business founded by Prosegur, one of the world's largest security, cash management and outsourcing companies. Precinct has been founded to specifically address the challenge of physical bank footprint reductions. We are acutely aware of the challenges that the changing banking landscape presents to the community, and in particular regional and remote communities, and we want to actively work with banks across the country to help them maintain, and in the medium term increase the services that they provide to their customers through physical formats.

Precinct's network will be comprised of a full spectrum of formats ranging from basic dispense ATMs through to our community hub format, which aims to provide all services that are currently available in bank branches today, plus a range of non-banking community services. Services will use a range of innovative technologies to deliver a better experience for customers than they have today, which merges the physical and digital experience. Our first pilot site is being tested at the moment on the Gold Coast. Our approach to solution build includes ongoing consultation with a number of banks and community representatives, with the aim being to deliver a solution that gives the best possible outcome for the Australian community.

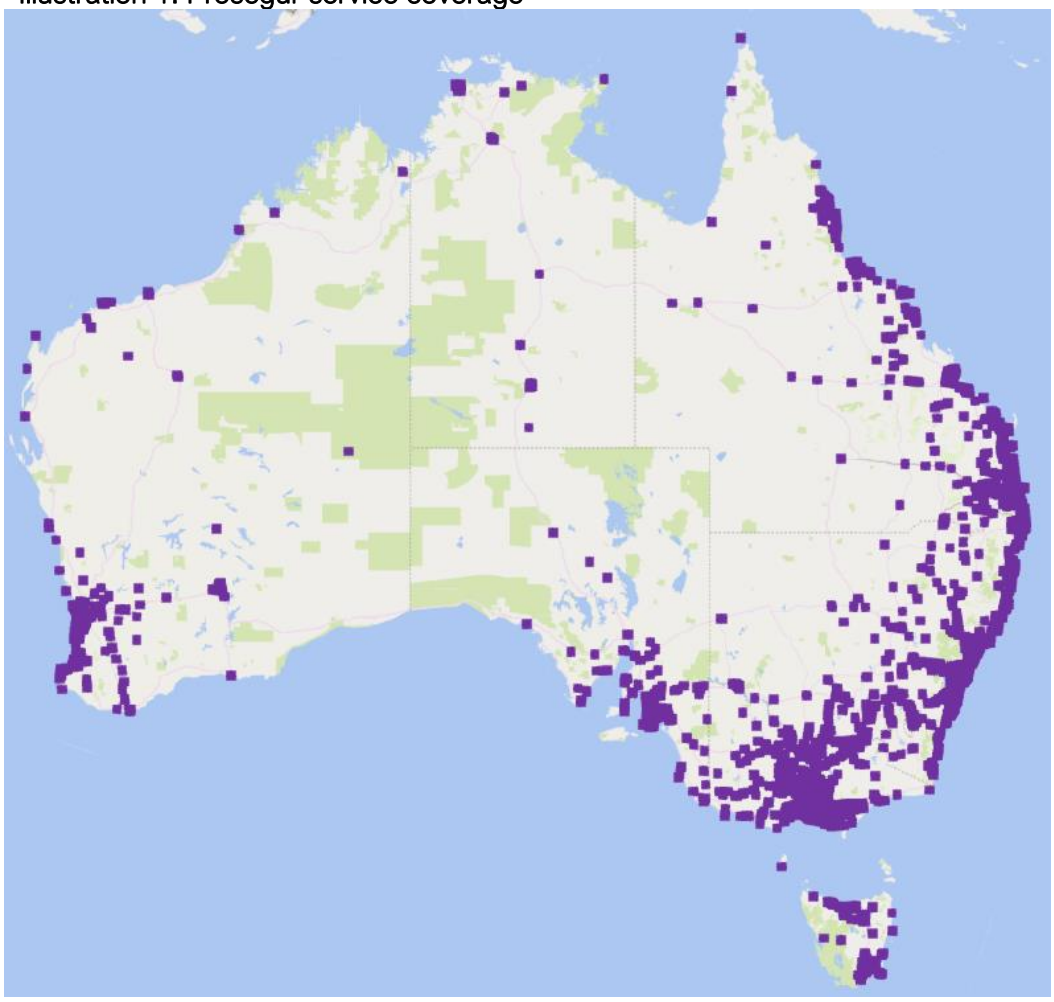
Precinct is a member of AusPayNet, ATMIA and FinTech Australia. Precinct believes strongly in the need for being a responsible and active contributor to the community, and to that end is currently preparing its submission to become a Certified B Corp. Key personnel at Precinct are signatories of the Banking and Finance Oath.

1.2 Who is Prosegur?

Precinct is part of Prosegur's global business. In Australia, Prosegur Australia Pty Limited ("Prosegur") is a provider of cash in transit ("CIT") services. Prosegur celebrates its 75-year anniversary this year, having been established in Australia in 1946 as the Escort and Armoured Transit Company. The business that is now Prosegur has been something of an institution in the armoured car/cash in transit sector in Australia, having previously been Transurety (1977-86), Brambles Armoured (1986-2000), Chubb Security (2000-2013), and finally Prosegur (2013 to date). Prosegur operates over 200 vehicles in Australia and has over 1,000 employees. We service well over 20,000 locations across Australia, as shown in the map at Illustration 1. This includes such remote locations as Thursday Island, Nhulunbuy

NT, Warburton WA, Coober Pedy SA, King Island TAS, and Norfolk Island. Prosegur provides services to communities that account for 97.2% of the Australian population.

Illustration 1: Prosegur service coverage[1]



Prosegur is owned by the global Prosegur group, one of the largest security companies in the world, with over 160,000 employees and presence in 26 countries and on every continent. As part of Prosegur's global operations, we operate our "CORBAN" business in Latin America, a banking agency model with over 2,000 points of presence in Brazil, Colombia, Peru and Uruguay. We leverage the expertise from this business for the building of Precinct.

Precinct is a locally developed innovation in banking services, it's an example of a large employer in Australia developing new pathways to growth and sustainability of their business. The work Prosegur is doing in developing Precinct together with innovations in the retail sector is intended to transition the CIT business into a range of new delivery models. In a policy sense we are looking at solutions that are a better fit for the new world of commerce and consumer behaviour that is arising through new forms of payment. The Precinct story can be a success story of traditional industries renewing themselves and the workers employed in them being skilled for the future economy.

[1] Source: Prosegur

2 Changes in the landscape of physical banking

[Relevant to Question 1, Question 4, Question 5, Question 6]

Key points of this section:

- **Physical bank access points have been reducing for many years**
- **There are a growing number of regional communities who have limited or no access to bank branches**
- **The Precinct Financial Services Index, which is an in-development measure, can provide a way to evaluate these changes over time and identify areas of relative need**

The landscape of physical banking is of course constantly changing with the shift in needs, demographics and industry. While this change is necessary and unsurprising, the level of change over the past five years has been significant. We are fortunate to have a range of publicly available data to inform our understanding of these changes, including data sourced from the Australian Prudential Regulation Authority (APRA), the Australian Bureau of Statistics (ABS), the Reserve Bank of Australia (RBA), and a number of other sources.

The reasons for the change in physical networks are well-discussed. They include:

- **Shifts away from physical channels in favour of digital channels**. Internet banking began in Australia in December 1995, and since then, there has been a continued move toward digital channels. Digital channels generally provide consumers and businesses with convenience, consistency, and reliability. While important parts of the business and residential community continue to rely on physical channels, the importance of digital is central to the future of banking.
- **Acceleration of the physical-to-digital shift as a result of the COVID-19 pandemic**. While the long-term effects of the pandemic are unknown, and in particular how society will preference physical vs online interactions, the pandemic certainly drove a short-term acceleration of movement toward digital channels. We will discuss in the next section the impact of the pandemic on cash, and this does provide some insight on the potential trends of broader usage of physical channels.
- **Changing demographics across the community**. Over a longer horizon, changes in demographics will continue to influence need across the various banking channels, and banking industry response to those needs. Some of the key demographics in local communities that are of note include age profiles, international migration profiles (particularly from non-English speaking backgrounds) and socio-economic profiles. We would anticipate that banks continue to consider these demographic considerations in their ongoing evaluation of their physical footprints.
- **Cost considerations within the banking industry**. We estimate that in 2018-19 the banking industry was collectively spending over $5 billion on physical channels. Operating branch and ATM networks comes at significant cost, and so it is inevitable that each bank will constantly evaluate this cost, and the perceived benefit that it delivers to customers, in an absolute sense and relative to other services that can be delivered with an equivalent spend.

We turn now to our analysis of the change in the physical banking landscape in Australia. Firstly, we provide a profile of bank deployment of branches and ATMs in 2017 and 2021, with data sourced from APRA[2]. Table 1 shows the changing profile of branches, while table 2 shows the changing profile of ATMs.

Branch networks have reduced by 22.8% over the last five years. In general, this reduction has been fairly evenly distributed, though regional and remote Australia has seen a slightly higher reduction of 24.6%. At a state and territory level, with the exception of the Northern Territory which has had less decline, regional and remote branch reductions have been fairly comparable, ranging from South Australia (22.9% decline) to Tasmania (30.5% decline).

ATM fleet reductions have been more substantial with a 43.8% reduction overall, while regional and remote Australia has seen a smaller reduction, of 28.4%. At the state and territory level regional and remote reductions are more diverse, ranging from NSW (15.8% decline) to Tasmania (45.0% decline). It should be noted that these reductions would in part be as a result of a number of ATM fleet sales to private operators, including Precinct. We discuss bank-partnered and independent ATM fleets further below.

Of course, a proper understanding of the changes in branch and ATM networks requires more than a simple review of network numbers. Firstly, we have reviewed branch numbers in relation to population at a state level, shown in table 3. Each branch in Australia was servicing an average of 4,230 people in 2017, and in 2021 is servicing 5,724 people. The growth in branch intensity has been most pronounced in Tasmania (41%) and Queensland (40%), while the locations that have the highest intensity are Western Australia (6,237 people per branch) and Victoria (6,128 people per branch). At the regional level, an important story emerges. The branches that are in regional and remote Australia have seen a proportionately higher increase in their service intensity, with a growth of up to 42% (in remote Australia). While the population per branch is lower, this is notable because each branch will service a wider geography of population, and therefore this points to each branch having a wider geographic catchment.

[2] https://www.apra.gov.au/authorised-deposit-taking-institutions-points-of-presence-statistics

Table 1: Changes in branch footprints, 2017-2021[3]

State	Region	Jun 2017	Jun 2021	Change	% change
ACT	Major Cities	95	77	(18)	-18.9%
	Inner Regional	0	0	0	0.0%
	Total	95	77	(18)	-18.9%
	Regional and remote total	0	0	0	0.0%
NSW	Major Cities	1,160	901	(259)	-22.3%
	Inner Regional	493	401	(92)	-18.7%
	Outer Regional	203	154	(49)	-24.1%
	Remote	24	17	(7)	-29.2%
	Very Remote	3	1	(2)	-66.7%
	Total	1,883	1,474	(409)	-21.7%
	Regional and remote total	230	172	(58)	-25.2%
NT	Outer Regional	34	27	(7)	-20.6%
	Remote	17	15	(2)	-11.8%
	Very Remote	13	13	0	0.0%
	Total	64	55	(9)	-14.1%
	Regional and remote total	64	55	(9)	-14.1%
QLD	Major Cities	644	492	(152)	-23.6%
	Inner Regional	273	205	(68)	-24.9%
	Outer Regional	256	195	(61)	-23.8%
	Remote	27	19	(8)	-29.6%
	Very Remote	33	18	(15)	-45.5%
	Total	1,233	929	(304)	-24.7%
	Regional and remote total	316	232	(84)	-26.6%
SA	Major Cities	246	188	(58)	-23.6%
	Inner Regional	69	56	(13)	-18.8%
	Outer Regional	85	64	(21)	-24.7%
	Remote	27	23	(4)	-14.8%
	Very Remote	6	4	(2)	-33.3%
	Total	433	335	(98)	-22.6%
	Regional and remote total	118	91	(27)	-22.9%
TAS	Inner Regional	84	64	(20)	-23.8%
	Outer Regional	53	36	(17)	-32.1%
	Remote	4	4	0	0.0%
	Very Remote	2	1	(1)	-50.0%
	Total	143	105	(38)	-26.6%
	Regional and remote total	59	41	(18)	-30.5%
VIC	Major Cities	867	684	(183)	-21.1%
	Inner Regional	390	307	(83)	-21.3%
	Outer Regional	129	92	(37)	-28.7%
	Remote	3	2	(1)	-33.3%
	Total	1,389	1,085	(304)	-21.9%
	Regional and remote total	522	401	(121)	-23.2%
WA	Major Cities	333	253	(80)	-24.0%
	Inner Regional	66	49	(17)	-25.8%
	Outer Regional	101	76	(25)	-24.8%
	Remote	58	40	(18)	-31.0%
	Very Remote	14	11	(3)	-21.4%
	Total	572	429	(143)	-25.0%
	Regional and remote total	173	127	(46)	-26.6%
Other	Inner Regional	1	0	(1)	-100.0%
	Very Remote	3	2	(1)	-33.3%
Total		**5,816**	**4,491**	**(1,325)**	**-22.8%**
Regional and remote total		**1,486**	**1,121**	**(365)**	**-24.6%**

[3] Source: APRA Points of Presence Statistics, Precinct

Table 2: Changes in bank ATM footprints, 2017-2021[4]

State	Region	Jun 2017	Jun 2021	Change	% change
ACT	Major Cities	251	123	(128)	-51.0%
	Inner Regional	2	0	(2)	-100.0%
	Total	253	123	(130)	-51.4%
	Regional and remote total	0	0	0	0.0%
NSW	Major Cities	3,412	1,834	(1,578)	-46.2%
	Inner Regional	825	486	(339)	-41.1%
	Outer Regional	181	149	(32)	-17.7%
	Remote	14	15	1	7.1%
	Very Remote	1	1	0	0.0%
	Total	4,433	2,485	(1,948)	-43.9%
	Regional and remote total	196	165	(31)	-15.8%
NT	Outer Regional	101	55	(46)	-45.5%
	Remote	37	26	(11)	-29.7%
	Very Remote	28	28	0	0.0%
	Total	166	109	(57)	-34.3%
	Regional and remote total	166	109	(57)	-34.3%
QLD	Major Cities	1,862	925	(937)	-50.3%
	Inner Regional	522	306	(216)	-41.4%
	Outer Regional	429	263	(166)	-38.7%
	Remote	23	19	(4)	-17.4%
	Very Remote	20	20	0	0.0%
	Total	2,856	1,533	(1,323)	-46.3%
	Regional and remote total	472	302	(170)	-36.0%
SA	Major Cities	746	347	(399)	-53.5%
	Inner Regional	87	68	(19)	-21.8%
	Outer Regional	93	70	(23)	-24.7%
	Remote	25	20	(5)	-20.0%
	Very Remote	4	4	0	0.0%
	Total	955	509	(446)	-46.7%
	Regional and remote total	122	94	(28)	-23.0%
TAS	Inner Regional	210	103	(107)	-51.0%
	Outer Regional	71	39	(32)	-45.1%
	Remote	8	4	(4)	-50.0%
	Very Remote	1	1	0	0.0%
	Total	290	147	(143)	-49.3%
	Regional and remote total	80	44	(36)	-45.0%
VIC	Major Cities	2,604	1,508	(1,096)	-42.1%
	Inner Regional	636	462	(174)	-27.4%
	Outer Regional	141	116	(25)	-17.7%
	Remote	1	1	0	0.0%
	Total	3,382	2,087	(1,295)	-38.3%
	Regional and remote total	778	579	(199)	-25.6%
WA	Major Cities	1,177	555	(622)	-52.8%
	Inner Regional	110	65	(45)	-40.9%
	Outer Regional	111	83	(28)	-25.2%
	Remote	57	40	(17)	-29.8%
	Very Remote	23	20	(3)	-13.0%
	Total	1,478	763	(715)	-48.4%
	Regional and remote total	191	143	(48)	-25.1%
Other	Inner Regional	0	0	0	0.0%
	Very Remote	1	1	0	0.0%
Total		**13,814**	**7,757**	**(6,057)**	**-43.8%**
Regional and remote total		**2,006**	**1,437**	**(569)**	**-28.4%**

[4] Source: APRA Points of Presence Statistics, Precinct

Table 3: Population serviced by branch by state[5]

	Jun-2017		Jun-2021		% growth in population serviced per branch
	Population	Branches	Population	Branches	
ACT	412,025	95	431,826	77	
	Pop/branch 4,337		Pop/branch 5,608		29%
NSW	7,867,936	1,883	8,176,368	1,474	
	Pop/branch 4,178		Pop/branch 5,547		33%
NT	247,517	64	247,023	55	
	Pop/branch 3,867		Pop/branch 4,491		16%
QLD	4,927,629	1,233	5,206,400	929	
	Pop/branch 3,996		Pop/branch 5,604		40%
SA	1,723,923	433	1,771,703	335	
	Pop/branch 3,981		Pop/branch 5,289		33%
TAS	522,410	143	541,965	105	
	Pop/branch 3,653		Pop/branch 5,162		41%
VIC	6,321,606	1,389	6,648,564	1,085	
	Pop/branch 4,551		Pop/branch 6,128		35%
WA	2,574,193	572	2,675,797	429	
	Pop/branch 4,500		Pop/branch 6,237		39%
Australia	24,601,860	5,816	25,704,340	4,491	
	Pop/branch 4,230		Pop/branch 5,724		35%

Table 4: Population serviced by branch by region[6]

Region	Population [a]	Branches, 2017	Branches, 2021	% growth in population serviced per branch
Major Cities	17,532,925	3,200	2,479	
Population/branch		5,479	7,073	29%
Inner Regional	4,865,111	1,370	1,086	
Population/branch		3,551	4,480	26%
Outer Regional	2,234,645	905	683	
Population/branch		2,469	3,272	33%
Remote	441,443	223	157	
Population/branch		1,980	2,812	42%
Very Remote	291,475	118	86	
Population/branch		2,470	3,389	37%

a. Population data at the regional level not available for each period

[5] Source: APRA Points of Presence Statistics, Australian Bureau of Statistics Population Data, Precinct
[6] Source: APRA Points of Presence Statistics, Australian Bureau of Statistics Population Data, Precinct

Because we see the availability of physical financial services as such a priority, Precinct is developing a measure for this change, the Precinct Financial Services Index. We note that presently this index is continuing to be developed and tested to ensure that it is robust. That said, we believe that even in its current form, it is useful to understand the changing profile of physical financial services.

We have provided a discussion on the measurement of the Precinct Financial Services Index at Appendix B. In summary, it considers the following factors:

- Measurement is at the ABS "SA2" level, which is the closest statistical approximation to a suburb or small town that is available. Illustratively, the Newcastle (NSW) local government area includes 14 SA2 communities, Wagga Wagga (NSW) and Shepparton (VIC) have 4 SA2 communities, while Horsham (VIC), Murray Bridge (SA) and Mt Isa (QLD) each have 1 SA2 community
- Each SA2 community is measured using a composite of the adult population, an estimate of the number of employees, and an estimate of business turnover
- Banking services available in each SA2 community is measured using a weighted index of the branch and ATM footprint of each bank, with a weighting of the estimate market share of each bank. An allowance is also made for Bank@Post services
- An additive is included for the nearest five SA2 communities, with the addition based on distance

The resulting index provides a measure of the availability of physical financial services relative to the residential and business profile of each community. The higher the index, the more serviced a community is relative to their population and business activity.

Table 5 provides the results at a state and region level. Across the country, the Financial Services Index has declined by 39% in the past five years. The change has been seen more highly in Northern Territory (75% decline) and Western Australia (45% decline), while at a regional level, the decline skews more toward major cities and inner regional communities, though outer regional has seen a 49% decline in the index.

With the creation of any composite measure such as the Financial Services Index, the obvious and important question is "what does it mean?" To illustrate what it means on the ground, we have shown at Table 6 the average number of branches and ATMs in each quartile of the index. For the bottom quartile of communities, in 2017 they had 0.5 branches and 1.3 ATMs available to them, in 2021 this has reduced to 0.3 branches and 0.5 ATMs. In the 50-75 quartile, communities had an average of 3.3 branches and 7.5 ATMs in 2017, in 2021 this has reduced to 2.6 branches and 4.3 ATMs.

To make the Financial Services Index real, we include some examples of regional communities with relatively high and relatively low indexes:

- Cobar, in Outer West NSW. 2021 Financial Services Index is **80.42**. With a population of 4,672, an estimate of 473 businesses employing nearly 1,500 people, this community has three bank branches, three bank ATMs and an Australia Post outlet
- Longreach, in Outback QLD. 2021 Financial Services Index **147.94**. With a population of 3,470, an estimate of 629 businesses employing over 2,000 people, this community has five bank branches, five bank ATMs and Australia Post outlets
- Grenfell, in Central West NSW. 2021 Financial Services Index is **12.37**. With a population of 3,606, an estimate of 543 businesses employing nearly 1,500 people, this community has one bank ATM and some Australia Post outlets

- Beaudesert, in the Scenic Rim, QLD. 2021 Financial Services Index is **26.05**. With a population of 14,903, an estimate of 1,384 businesses employing over 4,000 people, this community has three bank branches (two majors plus a mutual bank), one bank agency, two ATMs and Australia Post. This seems reasonably well served, but for a town this size it is comparatively small, particularly reflecting on the services available in 2017 (six bank branches, a bank agency, and eight ATMs)

Table 5: Precinct Financial Services Index, change from 2017 to 2021[7]

State	Region	2017 total Financial Services Index	2021 total Financial Services Index	2017 average Financial Services Index	2021 average Financial Services Index
ACT	Major Cities	24,855	17,827	191	137
ACT	Inner Regional [a]	4,319	30	1,080	8
ACT	Very Remote [a]	-	-	-	-
NSW	Major Cities	49,965	31,308	120	75
NSW	Inner Regional	6,391	4,619	48	35
NSW	Outer Regional	3,576	2,818	44	35
NSW	Remote	685	555	69	55
NSW	Very Remote [a]	522	175	104	35
NT	Outer Regional	12,619	2,682	287	61
NT	Remote	426	367	43	37
NT	Very Remote	275	285	17	18
QLD	Major Cities	22,696	13,788	77	47
QLD	Inner Regional	7,033	4,942	61	43
QLD	Outer Regional	5,751	3,971	63	43
QLD	Remote	509	327	28	18
QLD	Very Remote	1,240	1,046	43	36
SA	Major Cities	9,279	5,194	93	52
SA	Inner Regional	1,109	852	38	29
SA	Outer Regional	1,903	1,517	63	51
SA	Remote	569	467	52	42
SA	Very Remote [a]	182	182	30	30
TAS	Inner Regional	3,924	2,513	69	44
TAS	Outer Regional	1,759	1,167	52	34
TAS	Remote [a]	205	149	34	25
TAS	Very Remote [a]	117	104	29	26
VIC	Major Cities	33,862	21,215	101	63
VIC	Inner Regional	6,803	5,116	49	37
VIC	Outer Regional	2,318	1,661	54	39
VIC	Remote [a]	375	247	94	62
VIC	Very Remote [a]	-	-	-	-
WA	Major Cities	20,503	10,389	124	63
WA	Inner Regional	3,016	1,527	75	38
WA	Outer Regional	1,987	1,573	66	52
WA	Remote	1,277	1,005	85	67
WA	Very Remote	570	479	36	30
Other	Inner Regional [a]	1	1	1	1
Other	Very Remote [a]	311	225	62	45
Total		**230,932**	**140,323**	**93**	**57**

a. Less than 10 SA2 communities in this region, data should be treated with caution

[7] Source: Precinct

Table 6: Profiles of the Financial Services Index – what does it mean in branches and ATMs[8]

	Branches, 2017	Branches, 2021	ATMs, 2017	ATMs, 2021	Financial Services Index, 2017	Financial Services Index, 2021
25th percentile	0.5	0.3	1.3	0.5	35	19
50th percentile	1.4	0.9	3.4	1.6	69	43
75th percentile	3.3	2.6	7.5	4.3	108	71
95th percentile	4.2	3.5	10.0	6.0	205	137
100th percentile	4.2	3.5	10.3	6.2	3,086	1,655

2.1 Changes in ATM networks in Australia

Moving to the question of ATM fleets, an important consideration for the Taskforce is the recent trend of selling offsite ATMs to private operators. We estimate that over the past 3 years, around 2,500 ATMs have been sold. There is a strong logic and community benefit to this: if private operators are able to run ATM fleets more sustainably than bank owners, particularly if this can be done with scale, then it creates a better outcome for the community. Many of these continue to operate, either on a "white label" basis – branded as a specific bank, or on a utility or shared access network basis. There are currently two such networks in Australia: Precinct, which by mid-2022 will have some 800 locations, and ATMx, which purport to have some 2,000 ATMs, and which we estimate cover approximately 1,500 locations (due to duplication within their network). We believe that the move to shared access networks is a sensible and rational approach to an industry problem. Non-bank ATM operation has existed in Australia since the early 1990s, and delivery of basic withdrawal services is a relatively straightforward service. Precinct delivers our services on a "follow me branding" basis, allowing each bank to configure their customers' experience to their preference, including available transactions, look and feel, limits, etc.

It is important to note that while there is overlap in the Precinct and ATMx footprints, there are literally hundreds of locations that only one or the other network has presence. While location information is somewhat opaque, our best estimate at present is that the ATMx footprint only covers some 35% of the regional and remote population. Our approach to banks has consistently been on a "non-exclusive" basis, because we believe it is more important for the customers of banks to have access to services than for us to lock a bank into an exclusive contract. **We strongly advocate the Taskforce to consider this as one area of recommendation: that banks do not contract exclusively with ATM networks, but rather they ensure they have the ability to contract with multiple networks in order to ensure that their customers have access to banking services and access to cash.**

[8] Source: Precinct

3 Changes in cash usage

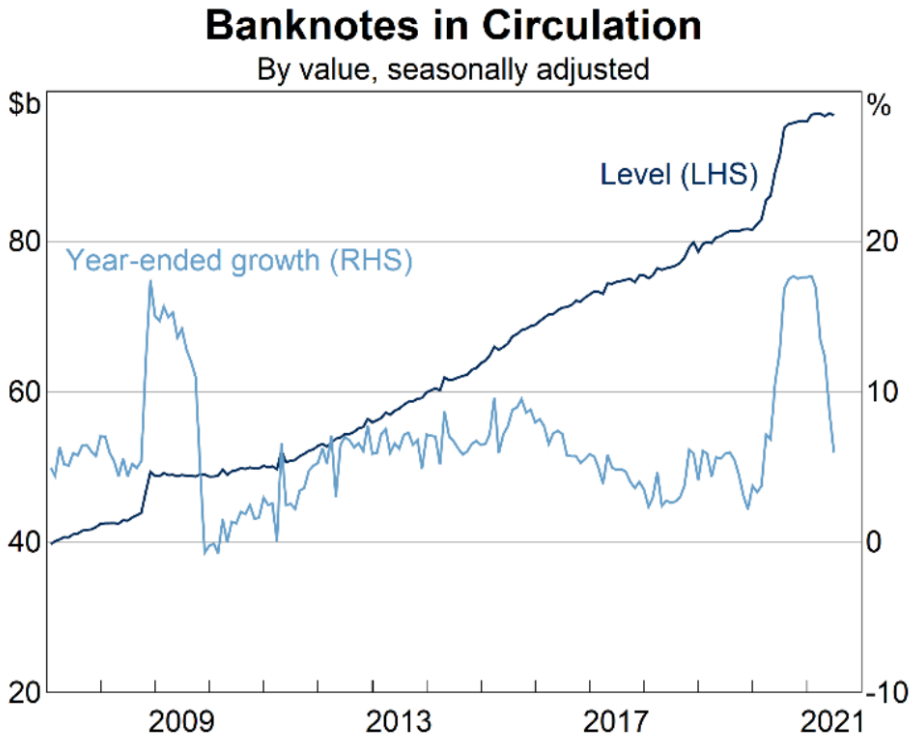
[Relevant to Question 1, Question 4, Question 5, Question 6]

Key points of this section:

- **Cash in circulation continues to increase, while cash as a form of payment has been reducing mainly as a proportion of total payments, and to a lesser extent in absolute terms**
- **However, the ongoing pervasiveness of cash in the community means supporting the "cash infrastructure" is a critical matter to address, with physical banking networks one important way to do so**

Contrary to prevailing commentary, demand for banknotes has continued to grow (Chart X), and the earlier stages of the COVID-19 pandemic saw an acceleration of this growth, with a 17.1% increase from March 2020 to February 2021. The RBA identifies this as an acceleration of a trend experienced over several years with physical currency increasingly held as a store of value.[9]

Chart X: Banknotes in Circulation[10]



While cash in circulation continues to grow, the view that cash usage has declined, both as a proportion of total payments and in absolute terms, is generally accepted and is supported by the data. This decline has been occurring since around 2009, and the onset of the COVID-19 pandemic has injected a series of significant impacts that have influenced trends

[9] Gutmann et al, 2021, RBA Bulletin "Cash Demand During Covid1-9"

[10] Reserve Bank of Australia 2021 Annual Report, https://www.rba.gov.au/publications/annual-reports/rba/2021/pdf/banknotes.pdf

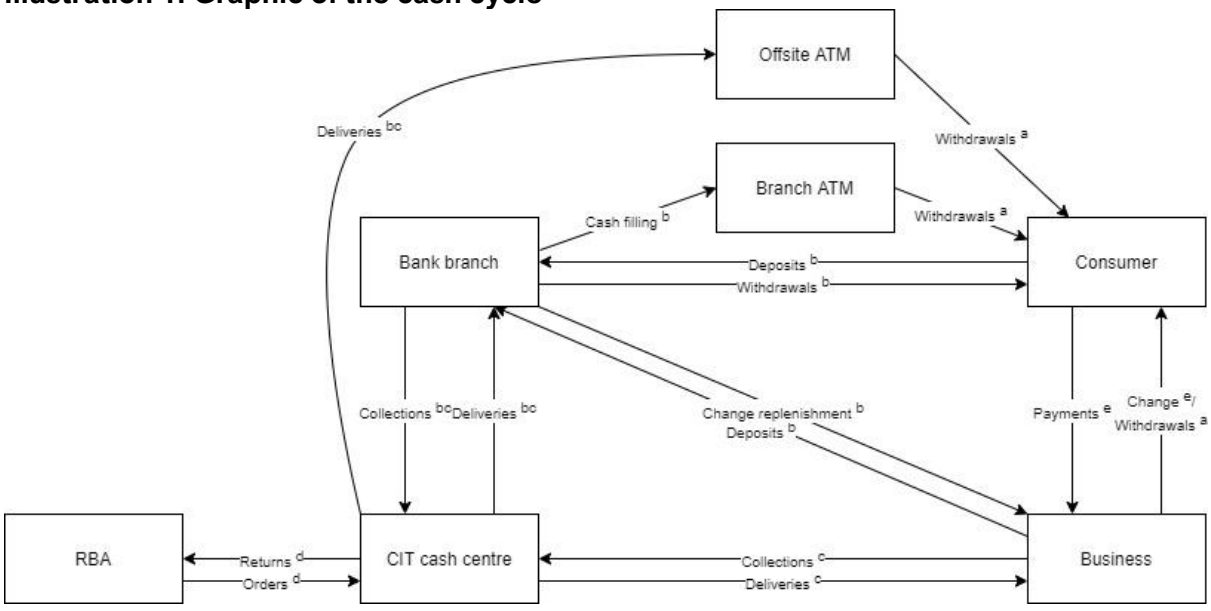
in cash usage. However, the simplistic predictions of the future of cash – that cash usage will cease in various short-horizon timelines – requires a higher level of objective analysis. We believe that, based on the data and a series of thematic analyses, that the need for cash will continue for an extended period of time.

One of the challenges with any analysis of cash usage is the lack of economy-wide reliable data. The most reliable data points are ATM/eftpos withdrawal data from the Reserve Bank of Australia's payments statistics, and to a lesser extent the RBA's triennial wallet studies on payment trends. These sources are referenced in the notes. While they are the best that is readily available, they each have failings:

- Withdrawal data is evidence of card-based withdrawals, and is only an indicator of cash activity. It does not measure cash payments, and misses the recycling of cash across the economy (discussed in more detail below)
- Wallet studies are only performed every three years, have a relatively small statistical base, and miss multiple segments of cash usage in the economy

Despite these failings, the RBA's work to understand cash usage patterns is commendable and can at least provide some insight into what the community is doing with cash. To add to understanding of cash as a form of payment, we have prepared a graphical representation of the cash cycle at Illustration 1, which indicates the potential sources of data to gain a full understanding of cash usage.

Illustration 1: Graphic of the cash cycle[11]



a. Data available and reported today (RBA payments statistics)
b. Data exists within bank systems, not reported, varying ease of accessibility
c. Data exists within CIT operator systems, not reported, generally accessible
d. Data exists within RBA and bank systems, not reported, varying ease of accessibility
e. If data exists it will be extremely challenging to capture, synthesise and report on

[11] Source: Precinct

A sensible starting point to understand cash usage patterns is withdrawal data. Chart 2 shows the long-term trend of cash withdrawals, and Chart 3 shows the trend of cash withdrawals from January 2019 to October 2021.

Chart 2: Cash withdrawals over time, 1994-2021[12]

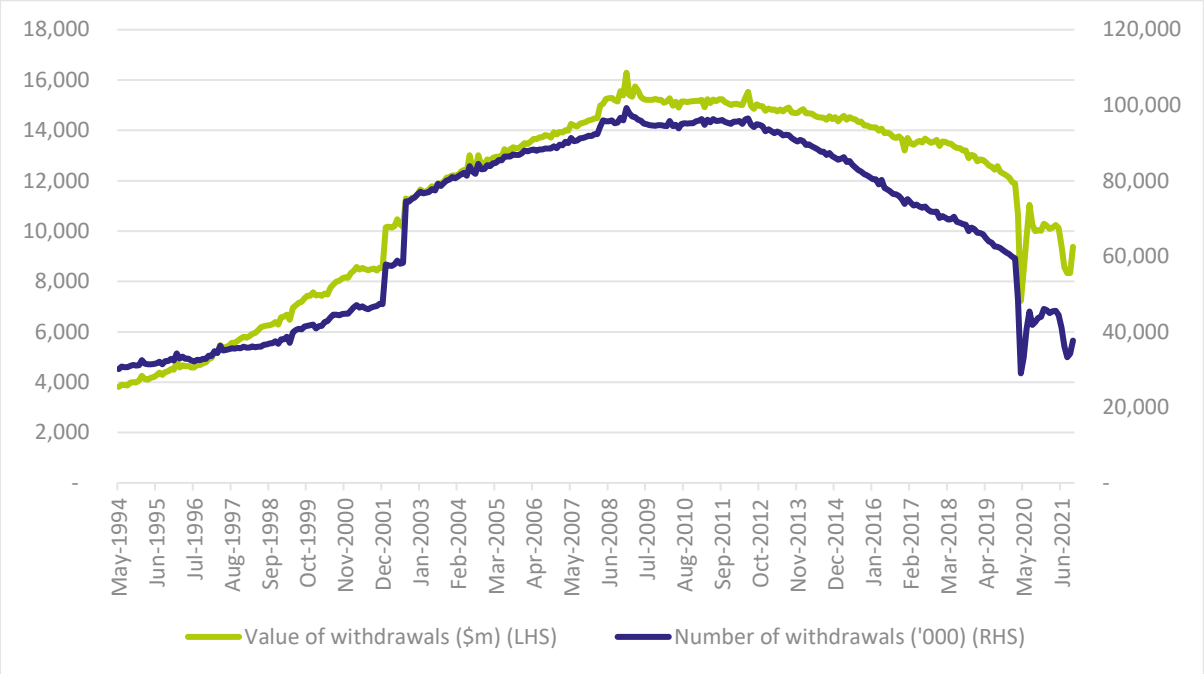
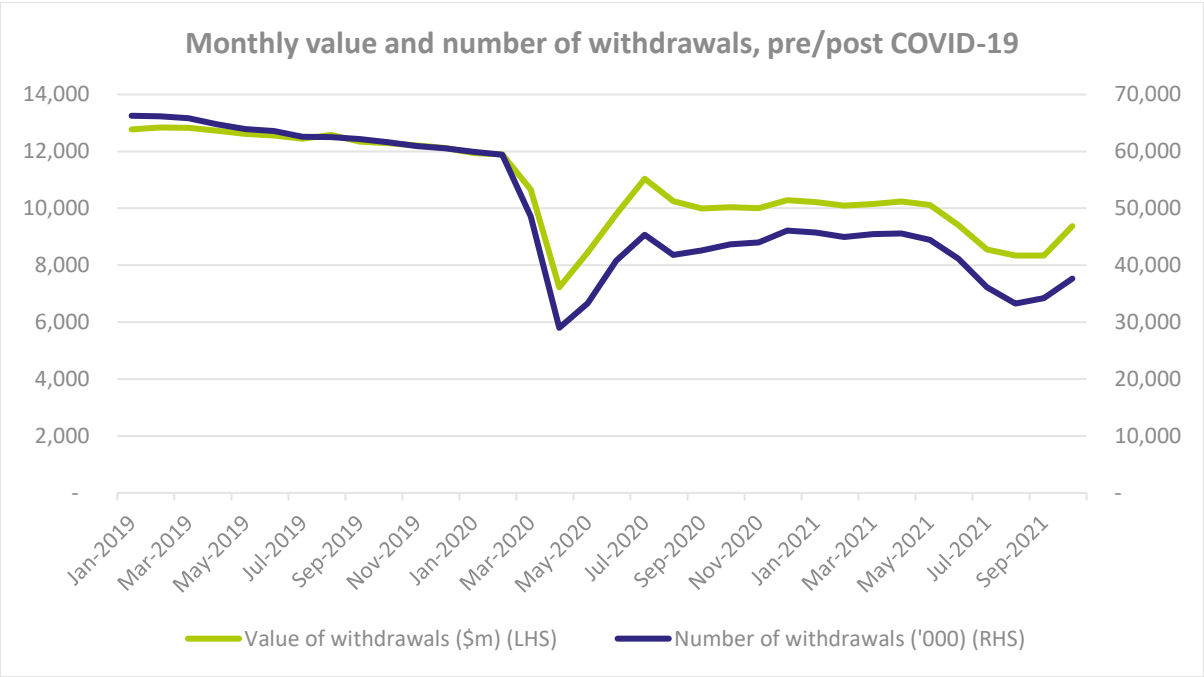
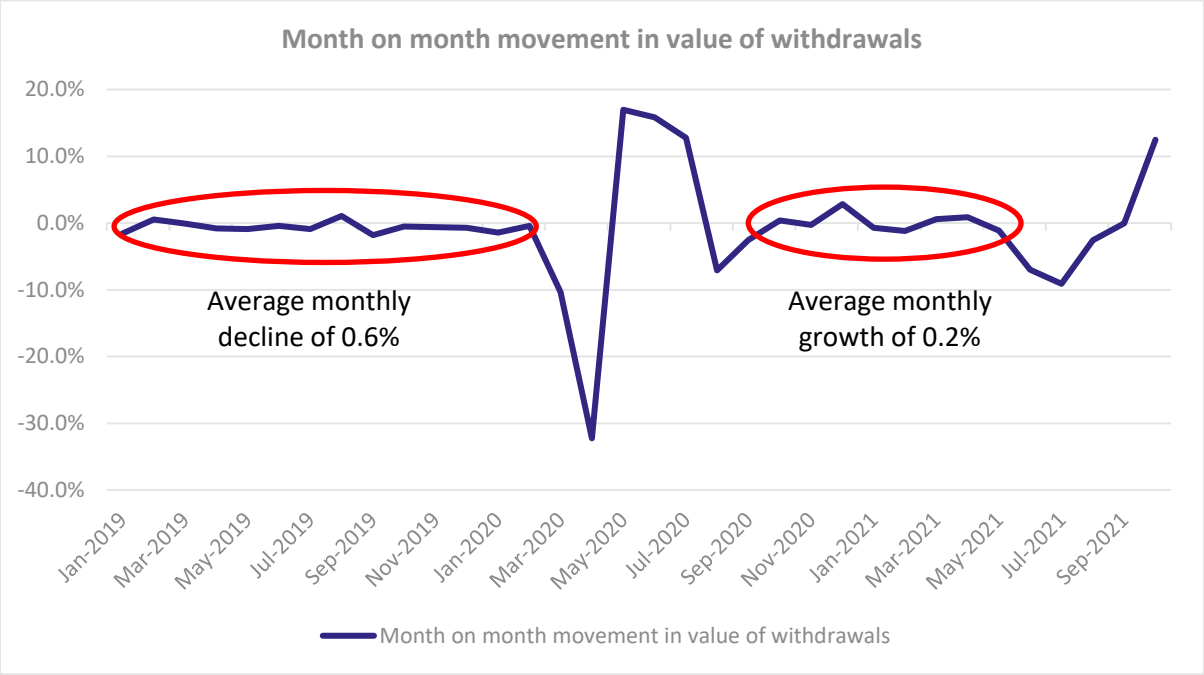


Chart 3a: Cash withdrawals over time, 2019-2021[13]



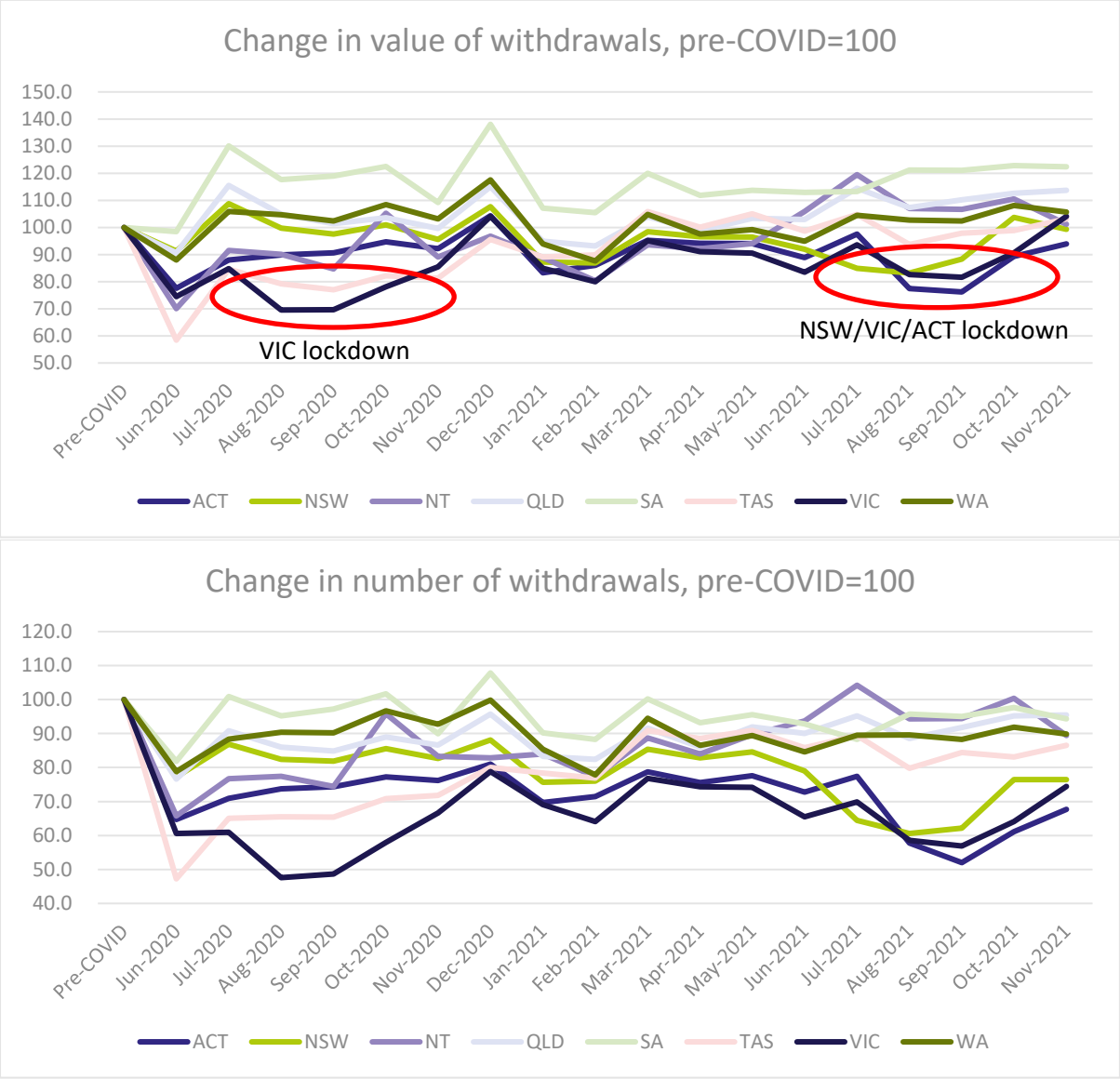
[12] Source: Reserve Bank of Australia Payments Statistics
[13] Source: Reserve Bank of Australia Payments Statistics

Chart 3b: Cash withdrawals over time, 2019-2021



We have had a hypothesis for some five years that the community has a spectrum of payments preferences, with both “digital most/only” and “cash most/only” groups, together with a large mixed group. We have anticipated that cash usage would decline to a baseline, and then stabilise for an extended period. In reviewing the above withdrawal data, our interpretation is that the COVID-19 pandemic has accelerated the polarisation of those in the mixed group, such that those who were likely to migrate to primarily digital forms of payment have now done so, and those who are now using cash have a strong preference or necessity to do so. While the lockdown effects make it difficult to see this clearly, our ATM fleet data provides particular support to this interpretation. Shown below using a base-100 approach, Chart 4 illustrates the change in withdrawal behaviours over the COVID-19 period, particularly with reference to lockdowns. The influence of lockdown behaviour is particularly apparent with the number of withdrawals over time, while values withdrawn are generally more stable, reflecting the essential role of cash access for some in the community.

Chart 4: Precinct ATM fleet withdrawals, with pre-COVID activity as a reference base[14]



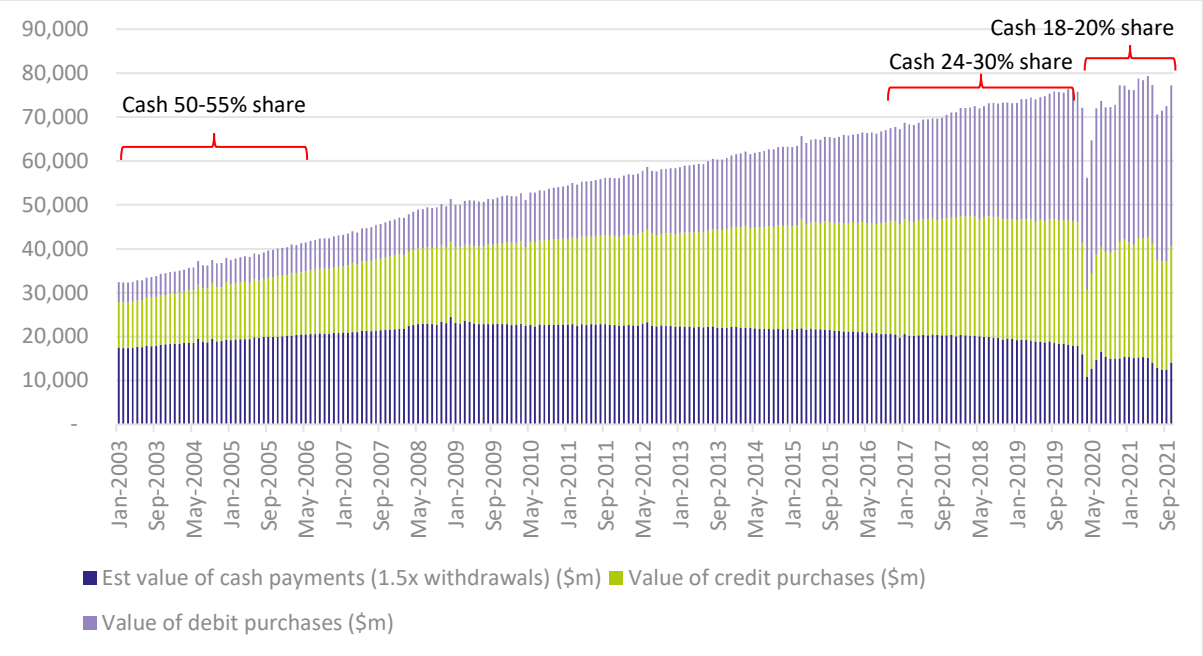
Of particular importance is the usage of cash as a proportion of the total payments landscape. As mentioned earlier, this is a difficult analysis to perform, because there are no reliable datapoints for actual cash payments. With reference to Illustration 1, there is no publicly reported or generally available data for (a) consumer withdrawals from bank branches, (b) business withdrawals from bank branches, (c) consumer payments to business, or (d) change provided to consumers by business. Each of these are important inputs to the volume of cash payments.

Due to the nonavailability of data. we have historically used a multiple of 1.5 of cash withdrawals as a proxy for cash payments. This is based on the rationale that when cash is used by consumers, they will typically receive change from the merchant, and this will cycle some 2-3 times, but at decreasing levels. We acknowledge that this proxy is not reliable, but it gives some weight to the recycling effect of the cash cycle in order to allow a more

[14] Source: Precinct

reasonable comparison to other payment forms. Chart 5 shows the share of the three major payment forms by volume (cash, credit card, debit card) over time. At October 2021, we estimate that cash makes up 18% of total payments by value, compared to 34% by credit card and 47% by debit card.

Chart 5: Cash as a % of total payments over time[15]



4 The impact of reducing access to physical banking

[Relevant to Question 4, Question 5, Question 6]

Key points of this section:

- **Cash usage and physical banking, while reducing, continues to be an important, indeed essential, service to the community and a way to protect the most vulnerable in the community**
- **The removal of cash, which will increasingly happen if physical banking services reduce, will impose growing costs on business in general and small business in particular**
- **Physical banking has been seen to be a promoter of local economies, particularly in regional areas**
- **Australia is not alone in tackling these challenges, and there is international research which we can learn from to inform the ways we can address the issue**

We have so far discussed the changing physical footprints of banking services, and the changing landscape of cash usage in Australia. We have focused on these two areas because physical banking and cash access are intricately linked when the impact of change is considered. This section discusses the impact of reducing access to physical banking through three lenses: individuals in the community, businesses and their costs to operate,

[15] Source: Reserve Bank of Australia Payments Statistics, Precinct

and regional local communities. We also provide reference and brief overview of two international studies that have explored these questions in more substantial detail.

4.1 Community reliance on physical banking

Based on sustained media commentary around the decline in cash and the expected end of cash, it would be easy to draw the conclusion that cash has already been relegated to a niche payment form, used by only a fraction of the community. But on simple numbers alone, this conclusion is unreasonable. We have used the RBA's payments statistics to illustrate what cash usage might look like amongst the community, and what that means based on wages, in the illustration below.

Illustration 2: Inferring individual cash usage patterns from payments data[16]

		Median Australian wages are $1,150 per week, which after tax is $4,158 per month
If 100% of the adult population use cash, then those who use cash would average…	2.1 withdrawals per month $488 cash withdrawn per month	11.7% of after-tax median wage
If 50% of the adult population use cash, then those who use cash would average…	4.2 withdrawals per month $977 cash withdrawn per month	23.5% of after-tax median wage
If 30% of the adult population use cash, then those who use cash would average…	7 withdrawals per month $1,628 cash withdrawn per month	39.2% of after-tax median wage

What this points to is reliance on cash, and as a result, physical banking, in some way. Either that reliance is widespread across the majority of the community but with more modest reliance at the individual level, or that reliance is concentrated on a portion of the community, and those people have a very high reliance on those services. The reality is likely to be somewhere in between. This tends to be discussed as the "choice and necessity" evaluation.

Choice is simple to understand. In a democratic, egalitarian society, Australians believe strongly in freedom of choice. Allowing individuals in society to choose how they pay has been supported by the RBA in numerous speeches and is generally accepted as an important feature of the payments environment.

While we have obligation to support choice in payments, the obligation is much higher in relation to the question of necessity. There is much to be said about necessity. We look at two areas that necessity can be understood: financial exclusion and digital exclusion.

Financial exclusion as a measure has been defined by the Centre for Social Impact as follows:

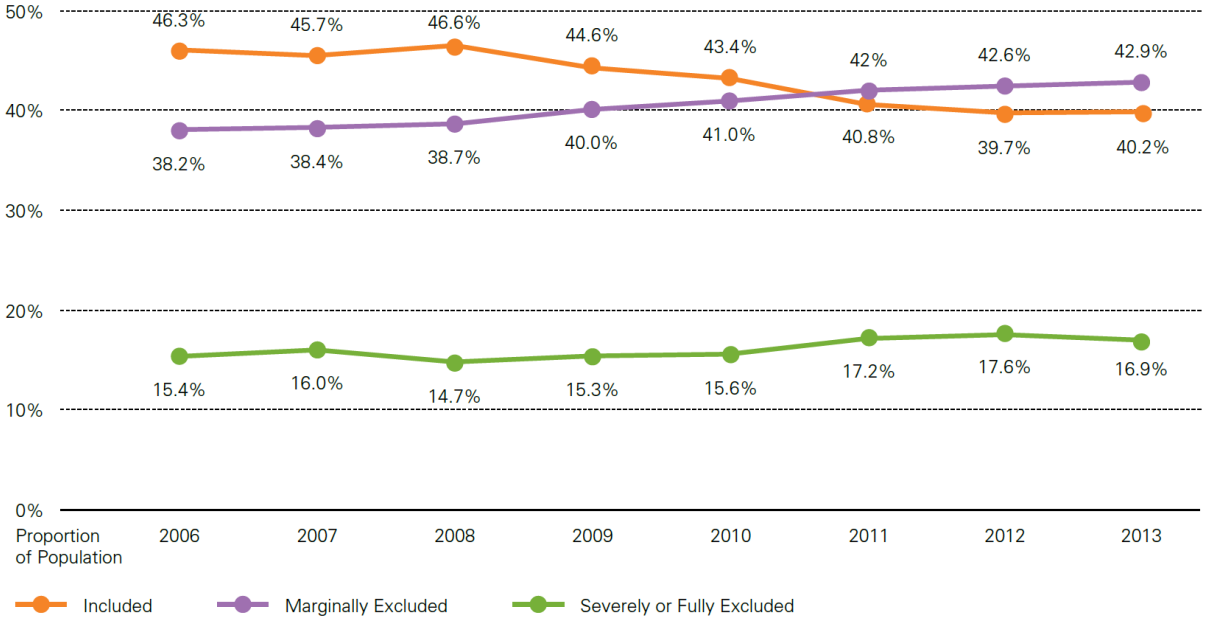
> Financial exclusion is the lack of access to affordable and appropriate financial services and products from mainstream institutions. Financial exclusion is measured

[16] Source: Reserve Bank of Australia Payments Statistics, Australian Bureau of Statistics Population Data, Australian Taxation Office, Precinct

on the basis of ownership of three basic financial services and products, namely a transaction account, general insurance and a credit card.

The Centre for Social Impact's 2015 report[17] provides substantial review and analysis around what financial exclusion means in practical terms and societal outcomes. Extending from this, if a person has no banking services in close proximity, then they are at risk of financial exclusion. This is most apparent in those who are already at risk, because they will have a proportionately higher reliance on physical services as opposed to digital/online services. Chart X, which is reproduced from the Centre for Social Impact report, highlights that a much higher portion of the population is severely or fully financially excluded than would be expected, and the level of financial exclusion is not improving.

Chart 6: Financial exclusion in Australia (reproduced from Centre for Social Impact 2015 report) [18]



Definitions:

- Included: holds a transaction account, a credit card and basic insurance
- Marginally excluded: holds two of a transaction account, a credit card and basic insurance
- Severely excluded: holds one of a transaction account, a credit card and basic insurance
- Fully excluded: does not hold a transaction account, a credit card or basic insurance

In parallel with financial exclusion, it is important to consider digital exclusion. This is because this is the part of the population that is most in need of physical services, rather than online services. We reference a report prepared by RMIT and Swinburne University of

[17] Muir, K., Marjolin, A. & Adams, S. (2015), Eight years on the fringe: what has it meant to be severely or fully financially excluded in Australia? Sydney, Australia: Centre for Social Impact for the National Australia Bank

[18] Muir, K., Marjolin, A. & Adams, S. (2015), Eight years on the fringe: what has it meant to be severely or fully financially excluded in Australia? Sydney, Australia: Centre for Social Impact for the National Australia Bank

Technology in 2020[19]. The findings of this report highlight the digital divide that exists in Australia. Put simply, there is a portion of the community who have relative privilege, and who can easily access, afford, and have the ability to use digital technology. However there is a substantial part of the community who lacks this. Chart X highlights this divide through a breakdown of digital inclusion across income quintiles. Further, digital inclusion has been measured within cross-sections of vulnerable people. It is these people – those who we need to take the most care in ensuring access to services – who are most digitally excluded.

Table 7: Digital inclusion in Australia (adapted from RMIT/Swinburne report) [20]

Income quintiles	Australia	Income Q1	Income Q2	Income Q3	Income Q4	Income Q5
Access	76.3	82.4	82.8	78.5	70.9	62.2
Affordability	60.9	78.5	67.6	58.1	46.3	32.7
Digital ability	52	60.6	58.7	52.7	44.2	36.3
Digital inclusion index	63	73.8	69.7	63.1	53.8	43.8
Average household income	*116,584*	*280,956*	*135,928*	*88,764*	*53,248*	*24,336*

Vulnerable people	Australia	>65	Income Q5	Un-employed	Disability	Indigenous
Access	76.3	62.7	62.2	76.2	67.6	68.5
Affordability	60.9	51.7	32.7	57.6	50.5	54
Digital ability	52	34.8	36.3	56.8	39.8	42.8
Digital inclusion index	63	49.7	43.8	63.6	52.6	55.1

Green=high digital inclusion; orange=medium digital inclusion; red=low digital inclusion

4.2 Costs to small business

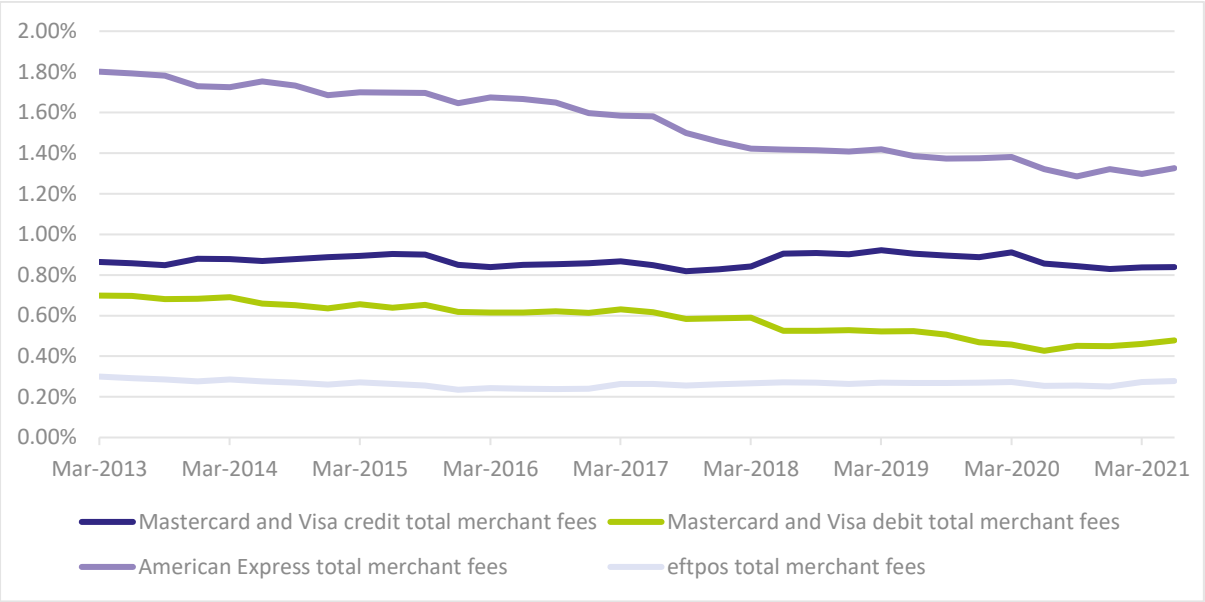
An important consideration for the reduction in physical banking is the potential impact on business costs, in particular small businesses. If businesses cannot bank cash takings, then they will eventually not be able to accept cash, and are then at the whim of card schemes and the fees they charge. Put another way, cash plays a unique role in allowing businesses to not pay merchant fees – if cash was not able to be banked, then businesses would be fully exposed to the cost of card acceptance, and there would be few market controls to limit increases in those costs.

At chart 7, we have reproduced the RBA's quarterly analysis of merchant fees for the major card types in Australia. This chart illustrates that while some card categories have reduced over the past decade, merchant fees have been stable for the past three years, and now are tending to have an upward trend. The risk to businesses in general and small business in particular is that if this upward trend continues, and cash becomes a less accessible payment form due to a reduction in branches, then there will be no way to avoid increasing costs for doing business.

[19] Thomas, J, Barraket, J, Wilson, CK, Holcombe-James, I, Kennedy, J, Rennie, E, Ewing, S, MacDonald, T, 2020, Measuring Australia's Digital Divide: The Australian Digital Inclusion Index 2020, RMIT and Swinburne University of Technology, Melbourne, for Telstra

[20] Adapted from data reported in Thomas, J, Barraket, J, Wilson, CK, Holcombe-James, I, Kennedy, J, Rennie, E, Ewing, S, MacDonald, T, 2020, Measuring Australia's Digital Divide: The Australian Digital Inclusion Index 2020, RMIT and Swinburne University of Technology, Melbourne, for Telstra

Chart 7: merchant fees over time[21]



The current costs of card acceptance are highlighted in Illustration 3. We have drawn the average total merchant fees for each of the major card categories, and calculated a weighted average cost of merchant facilities based on the estimated market share of each card type, together with RBA data to inform the proportion of total card payments that are either debit card or credit card.

We are conscious of the recent changes in payments around 'least cost routing.' This is a way of providing merchants with the benefit of the lowest cost of acceptance for co-branded debit cards (eg. where a card is both Visa and eftpos). Least cost routing, or LCR, has been championed by many in the industry, and rightly so, because it provides merchants with a way of navigating the complex cost structure of card schemes to get the best cost outcome. Unfortunately, many businesses, and in particular small businesses, are not receiving the benefit of LCR.

Illustration 3 shows what the effective annual cost of merchant fees are on businesses of various sizes, based on whether they are benefiting from LCR or they are not. Using a report from the Australian Small Business and Family Enterprise Ombudsman[22], the average turnover of small business is $678,000. This implies annual merchant fees of $3,500-4,500, before the cost of eftpos terminals and any other associated costs. These costs will already grow each year due to inflation. Without downward cost pressure on card schemes, we anticipate these costs will grow.

[21] Source: Reserve Bank of Australia Payment Statistics
[22] "Small Business Counts: December 2020" The Australian Small Business and Family Enterprise Ombudsman, Canberra 2020

Illustration 3: The cost of card acceptance[23]

Title	Mastercard and Visa credit	American Express	Mastercard and Visa debit	eftpos
Total merchant fees	0.839%	1.326%	0.478%	0.278%
Share of credit/debit payments	84%	16%	70%	30%

Weighted cost of credit merchant fees	0.917%
Weighted cost of debit merchant fees	0.418%
Cost of debit merchant fees with LCR	0.278%
Credit payments as a share of total credit/debit	41.0%
Debit payments as a share of total credit/debit	59.0%

	exc LCR	inc LCR
Weighted average merchant fee	0.623%	0.540%

Annual turnover	Merchant fees if no LCR	Merchant fees if with LCR
$500,000	3,113	2,702
$1,000,000	6,227	5,404
$2,500,000	15,567	13,511
$10,000,000	62,269	54,043

4.3 Local economies

At the community level, the presence of physical banking is an important enabler of employment. The Victorian Government prepared a 2002 report that investigated the effects of branch banking in local communities. While slightly out of date now, the essential findings of the report are relevant for consideration. Firstly on the positive side, "Following the opening of a [bank branch] that operates in both Rupanyup and Minyip in 1998, the local supermarket saw a 30 per cent increase in its turnover, enabling the manager to expand his product range and purchase new equipment."[24] This highlights the benefit of branches in local communities, because they draw the surrounding population to the town. From the same report, the negative side was also discussed: "[Boroondara City Council] found that in both metropolitan and rural areas, the loss of the last bank branch causes butchers to lose 40 per cent in sales, general retailers between 10 and 25 per cent and pharmacies and newsagencies 5 per cent."[25] This shows the opposite effect of bank branch presence. The effect of the last branch leaving a town was particularly well expressed by Ian Alison, a

[23] Source: Reserve Bank of Australia Payment Statistics, Precinct
[24] "Inquiry into the Impact of Structural Changes in the Victorian Economy" Parliament of Victoria, May 2002
[25] "Inquiry into the Impact of Structural Changes in the Victorian Economy" Parliament of Victoria, May 2002

resident of Boort, VIC, to the ABC: "[When the last bank branch closes] people go away to do their shopping and banking and all that sort of stuff, and a little town dies."[26]

We see the need for banking services, provided in physical form, as essential to regional communities in particular. We will discuss the current default option, Bank@Post, in more detail in the next section, but a brief comment on the suitability of the model is appropriate at this point. Again with reference to a town where the last branch was closed, in Blayney, NSW, the mayor, Scott Ferguson, offered comment on the adequacy of services offered through the post office: "Some services will be offered at local post offices, but most customers will have to do their banking online or in neighbouring towns. 'Things that could potentially be done at the post office, but we are finding that the post office will not be able to deliver some of those services that our businesses need.'"[27]

Representatives of Precinct attended the Local Government Association's National General Assembly in June 2021. We attended with one objective: to listen to local government representatives concerning access to physical banking. The sentiments expressed above were a common refrain: physical banking services were essential in the bush, the services offered through Australia Post were not sufficient for the long term, and the continuing decline of services was creating increasing challenges for local communities.

4.4 International research

In the United Kingdom, a comprehensive report was released in 2019 called the "Access to Cash Review."[28] We commend this report to the Taskforce, as there is much in both the research and the findings of the report that is relevant to the Taskforce's objectives. As far as the impact of a reduction in physical banking and access to cash on the community, we highlight here the key risks identified in the report:

- **Risk to rural communities**. The report discusses the slower rate of movement to digital in rural communities, which can be as a result of poorer access to high speed internet. While the NBN has provided improved internet access to rural communities, 4% of the population are on fixed wireless connections which have variable reliability. The report also pointed to rural communities tending to "have a larger proportion of lower income, older and more vulnerable users"
- **Risk to personal independence**. This risk calls out the higher proportion of those who are elderly or who live with disabilities that rely on cash – and we would in turn say physical banking services – to manage their daily affairs
- **Risk of increased debt**. The benefit of cash as a tool for budgeting was observed, and this aligns closely with consistent findings by the RBA in their triennial cash usage studies[29] (with nearly 50% of Australian high cash users saying that budgeting was the most important reason that they use cash)

[26] "What happens when a town loses its last bank?" Lauren Day, ABC. https://www.abc.net.au/news/2018-06-14/the-town-with-no-bank/9866310
[27] "Commonwealth Bank shuts two more branches in regional New South Wales" Joanna Woodburn and Xanthe Gregory, ABC. https://www.abc.net.au/news/2021-06-04/two-central-west-banks-shut-up-shop/100184490
[28] "Access to Cash Review: Final Report" Natalie Ceeney (Chair), United Kingdom 2019, https://www.accesstocash.org.uk/media/1087/final-report-final-web.pdf
[29] "Consumer Payment Behaviour in Australia" James Caddy, Luc Delaney, Chay Fisher and Clare Noone, Reserve Bank of Australia, 2020

- **Risk of financial abuse**. Domestic financial abuse often takes the form of the abuser limiting or completely restricting access to finances for their partner. Cash can present a way of reducing the scope of such financial abuse because it allows anonymity in purchases
- **Risk to community and connection**. The ongoing move to digital-everything puts connection within the community increasingly at risk. In the payments and banking space, availability and use of cash, together with physical presence of services, creates personal interactions and the opportunity for connection
- **Risk of poorest paying most**. At both the individual and business level, those who can least afford to lose cash as a universal form of payment are the ones who will suffer the most through increased costs. This risk is in line with our earlier discussion on the cost of merchant services to small business, particularly if the ability to easily deposit cash takings is reduced
- **Risk of catastrophic failure**. While the UK report was written in a pre-COVID world, it was quite prophetic with this risk. We saw in Australia and across the world both a reduction in the day-to-day use of cash, but at the same time a flight to cash for safety, with substantial growth in currency in circulation and reports of large withdrawals over the counter from branches. While COVID is one type of crisis, of particular relevance to cash access and the infrastructure that supports cash as a form of payment, including branch networks, is the potential for technology failure including risk of cyber-attack and risk of failure in single-point components of the payments network. While access to cash does rely on the banking system, the nature of cash means that there is a lower dependency in the short term, making it a suitable redundancy

Earlier this year the Dutch Minister for Finance tabled a report[30] commissioned by the Dutch Central Bank and prepared by McKinsey & Company, which looked at possible future challenges with the cash infrastructure in the Netherlands. We commend this report to the Taskforce, as it explores a range of key considerations in relation to the future of access to cash and the need for physical banking. In brief, some of the findings of the report include:

- Cash usage in the Netherlands has tracked at a similar trajectory but slightly higher level than Australia, with an estimated 65% of payments being made by cash in 2011, 32% in pre-COVID 2020, and 21% in 2021
- The report provides some helpful analysis and insights around the overall cash cycle and the proportionate costs within the cash system
- There is an estimated 1.3-1.5m people in the Netherlands who are dependent on cash. This is between 7.5% and 8.8% of the population
- The report advocates for a range of measures to ensure system resilience of the cash system. While conditions in the Netherlands are different to Australia, they area helpful reference point for the Taskforce to consider

[30] "The Future of the Cash Infrastructure in the Netherlands" Mckinsey & Company, the Netherlands, June 2021. Executive Summary available in English, Full Report available in Dutch, at https://www.dnb.nl/en/actueel/dnb/press-releases-2021/dnb-calls-for-new-agreements-about-cash/

5 Alternate global models

[Relevant to Question 8, Question 9, Question 10, Question 11]

Key points of this section:

- **Globally there are a range of models to address the need for sustainable physical banking that have been implemented or tested – Australia is not the first or only country confronting this challenge**
- **The needs of each country are different, and therefore the response will be country-dependent**
- **There is opportunity to learn and build from existing models, both to inform "best of breed" and to contextualise learnings**

Australia is not unique in facing the challenge of technology changes, demographic changes, and the resultant change in needs of physical banking infrastructure. We provide three examples of alternate models that are found globally that assist banks and the community in addressing this challenge, from Europe, the United Kingdom, and Latin America.

In the Netherlands, three of the major banks, ABN-AMRO, ING, and Rabobank, have established a joint infrastructure model for cash services, called Geldmaat (literally "money buddy"). Geldmaat now operates the majority of ATM and other bank cash automation devices in the country. While owned by the three banks, Geldmaat provides services to other banks in the Netherlands, and encourages all banks in the country to use the network to provide services to their customers. When considering the Geldmaat model, a number of key features are notable:

- Almost all services are delivered via cash automation devices – ATMs and other device types, rather than tellers. There are some locations where staff assist customers, particularly as part of an education process
- The network is independently branded rather than being a co-brand of the founding banks
- Locations are both branch and offsite
- Geldmaat offers the following transaction types:
    - Loose note withdrawals
    - Loose note deposits
    - Sealed bag deposits
    - Coin deposit and withdrawal (starting to rollout)

In the United Kingdom, a number of models have been explored. In 2019-20, a pilot "business banking hub" was tested by three of the major banks (Lloyds, NatWest and RBS/Barclays). More recently, a startup called OneBanks has commenced rollout of their kiosk concept. Adopting the slogan "all banks, one location, all welcome," OneBanks has commenced deployment in Scotland. Some of the features relevant to understanding OneBanks include:

- At this point they have taken a light footprint approach, with kiosks deployed in Co-op supermarkets
- The OneBanks model aspires to 'preserve human interaction' by having staff as a key feature of their model

- OneBanks uses the United Kingdom's open banking infrastructure to facilitate financial transactions

In Latin America, outsourced banking solutions have been a feature of the banking landscape for many years. Precinct's parent company, Prosegur, has been central to this evolution. Prosegur commenced operation of "multiagencias" over a decade ago, and more recently has established its CORBAN business in multiple countries, including Brazil, Colombia, Peru, Uruguay and Chile. Key features of Prosegur's model over the years include:

- Explicit partnering with banks to deliver services that are fit for each bank's customer base
- Model flexibility to allow both "mono bank" and "multi bank" models
- Generally favouring light footprint models, including agency models (with CORBAN services delivered in retail environments such as pharmacies, newsagents, etc) and dedicated outlets including small shop fronts, kiosks, and "store in store" models
- Mixed technology and staff approach, with teller-style services being the norm
- Customer support models for lending and deposit products, including the initiation and management of loan and account opening applications on behalf of banks

We see a number of observations and questions relevant to any future model for Australia coming from this set of example international models:

- Each country has its own specific considerations and environmental factors. It is unlikely that a single model will be suitable across all international environments
- For a model to be successful, it needs to consider a number of components:
    - How will customer experience be addressed? If customers are unhappy with the experience, then the model will not succeed
    - How will the operator work with banks to jointly ensure customers understand how services are provided, have confidence in those services, and ensure that customers are satisfied with those services?
    - How can outsourced banking services cover the entire community and not just customers of partner banks?
    - What types of transaction and interaction need to be provided to meet customer needs?
    - What is the right mix of technology?
    - How will the model be economically sustainable?

6 Industry and community risks and challenges due to changes and the "default" model available

[Relevant to Question 4, Question 5, Question 6, Question 8, Question 9, Question 10, Question 11]

Key points of this section:

- **Services need to be proximal to the users of those services. To the extent possible, regional and remote communities should expect and deserve to have services that are convenient to them**
- **The physical banking landscape still processes a very high value of cash and a large number of customers, which means that the Bank@Post model is fundamentally inadequate for servicing the industry due to security, cost and service intensity, unless bank branch footprints remain essentially the same as they are today**
- **Leave-behind approaches that exist today, including the Bank@Post model, do not adequately consider customer experience, and with any growth in volumes being pointed to that channel, customer experience is likely to deteriorate substantially**

6.1 The risk and challenge for service coverage

The most obvious risk and indeed what we see as a key driver for the formation of this Taskforce, is the need for service coverage across the community. When we talk about service coverage we don't see this as being limited to geographic coverage. While geographic coverage is of fundamental importance, service coverage also includes the services that customers can receive. We restate the ABC's reporting of Blayney Mayor Scott Ferguson's comment in relation to the need for services in regional communities: "Some services will be offered at local post offices, but most customers will have to do their banking online or in neighbouring towns. 'Things that could potentially be done at the post office, but we are finding that the post office will not be able to deliver some of those services that our businesses need.'"[31] Service coverage starts first with seeking to understand customer needs and expectations, a step that we believe has been sorely lacking to date.

6.2 The risk and challenge of access for all in the community

For many years now, basic ATM withdrawals have been available to any cardholder at any ATM. This is driven by the way that card scheme rules operate, by the technology architecture used to process withdrawal transactions, and by mechanisms that allow ATM operators to offer services directly to customers. Deposit acceptance is more challenging, for a number of reasons:

- The technology architecture has not existed for processing deposits except for on an "own-bank" basis

[31] "Commonwealth Bank shuts two more branches in regional New South Wales" Joanna Woodburn and Xanthe Gregory, ABC. https://www.abc.net.au/news/2021-06-04/two-central-west-banks-shut-up-shop/100184490

- While ATM withdrawals generally do not have significant risk in relation to financial crime, deposit solutions are an important area of focus for financial crime and AML/CTF risk, which means that solution development needs to fully consider these risks and how it will manage them
- Most existing models, including Bank@Post, are on an "agency" basis, which means that the service provider is acting solely and completely on behalf of the principal bank. To extend this logic, it means that unless a customer's bank has an agency relationship (and a technology link) with the service provider, they cannot receive services

From a technology perspective, there are a number of avenues that offer potential, particularly via the New Payments Platform and via the major debit card schemes (eftpos, Visa and Mastercard). Solving the technology challenge is only one piece of the overall puzzle, but there are technologies that have the potential to at least solve this challenge in part.

The agency challenge is more substantial. Already some in the community feel the pain of this challenge, being refused service by Bank@Post because there is not a commercial arrangement between their bank and Bank@Post. We of course support the right of any commercial entity to enter into, or not enter into, a commercial relationship as they see fit. However, if the fundamental structure of the model means that those end customers are unable to receive services then there is a significant challenge which particularly affects regional and remote communities, where alternatives may be inadequate or unavailable.

6.3 Risks in relation to volume

We see one of the biggest risks of the Bank@Post model being its ability to handle volume if the volume currently handled by bank branches moves to Bank@Post. Our estimate is that if this move were to take place, each Australia Post outlet would on average need to handle some $300-400,000 of additional deposits per week, and well in excess of 100 additional customers per day. This additional volume will play out in a number of ways:

- **Security**. Banks and the branches they operate consider physical and logical security as one of the fundamental features of their infrastructure. Precinct understands this, particularly because our parent company, Prosegur, is a global cash management and security provider. The risk to post office locations, to employees, and to customers, will grow exponentially if there is a growth in volume without a proper handling of security
- **Customer experience**. Anecdotally, post offices already struggle to manage customer volumes, with queuing a regular experience, particularly at peak times which is when banking services are most in demand. If 100+ additional customers require services in those peak times, local post offices simply won't be able to cope and local communities will suffer
- **Service intensity**. Without significant investment in infrastructure – premises and technology in particular – the only way to deal with the above two challenges is through a much more service-intensive model. This would mean adding additional staff in each post office, at additional cost, and potentially refurbishment of post offices to properly cater for those staff. More particularly, it would also mean the need to cash-service post offices on a much more frequent basis, potentially daily. Precinct is aiming to do the opposite – we want to see a reduction in logistical needs, because it reduces carbon emissions, it reduces road accident risk, and because it forces greater efficiency in the cash cycle. Purely from a cost perspective the service

intensity of cash logistics would be significant – if all post offices were serviced 2-3 times per week, this would be at a cost of over $100m per year

These challenges cumulatively mean that if and when volume moves into the Bank@Post network, the model will not need merely fixing around the edges, it would be fundamentally broken and require "root and branch" change to rectify. Changes would include the physical infrastructure that services are delivered through, the staffing model used, the servicing model used, consideration of how to ensure appropriate physical security, consideration of how to deliver a suitable customer experience, and how the model might adapt for changes to technology and opportunity for innovation over time.

6.4 The risk and challenge of sustainable business models

In Section 1 we discussed some of the reasons for change in physical networks – why banks are reducing their branch footprints. To recap, these reasons include a shift toward digital channels and the resulting reduction in demand for services, together with the cost of operating physical channels. This points to the need for economic sustainability in any model that is considered.

On this risk there is a conflict: on the one hand, the more volume can be brought into any service model from multiple banks, the lower the per-transaction cost will be, and the more sustainable will be the model. On the other hand, setting policy that preferences one model, in particular the existing Bank@Post model, is creating structural anti-competitiveness. This has already been played out in the 2018-19 Bank@Post negotiations with banks having little room to negotiate terms due to no available alternative to the Bank@Post model. We believe strongly in fair and open competition, and for this to be possible, alternatives must exist.

At the other end of the sustainability and competitive spectrum, we are conscious of concerns for regional Australia Post licensees. Indeed, the Taskforce Issues Paper noted the potential for "[regional baking hubs to] potentially erode the viability of Bank@Post licensees." We believe that this is a problem that Australia Post have themselves made for licensees. The Licensed Post Office Agreement contains an obligation on licensees to "not sell or provide at or from the Premises, without the written consent of Australia Post, such consent to be not unreasonably withheld, any products or services which compete with or perform similar functions to the Products or Services listed in Annexure B" (clause 12(d))[32]. Included in the services listed at Annexure B is "Manual and Electronic Banking." In our view, there is no reason why those independent businesses in regional communities who hold a licence with Australia Post should not be able to offer the services of another banking outsource provider. To restrict this is anti-competitive. We suggest that an appropriate solution is to require Australia Post to remove clause 12(d) in its entirety from the LPO Agreement, so that independent licensees have the ability to control their own commercial affairs and provide services that they believe are appropriate in their location. If a service delivery model that is better-able to address banking needs than Bank@Post exists, then they should not be restricted from offering such a service to their customers.

[32] https://www.lpogroup.com.au/sites/default/files/general_downloads/FINAL%20MARKED%20UP%20LPO%20Agreement.pdf

6.5 The risk of financial crime

Financial crime and its management has been a key focus of the banking industry for some years. A number of large investigations by AUSTRAC have highlighted the challenges of managing financial crime risk well, and the need to ensure strong systems for risk assessment, customer identification, transaction monitoring and management, and reporting. Where these services are outsourced, the need to ensure these pillars remains strong is critical. Specifically in relation to cash deposits, where the receiving bank is one or more steps removed from the point of deposit, the challenge of ensuring sufficient knowledge of the deposit and the depositor increases.

Operating under an agency model as discussed above, does relieve the service provider (eg. Bank@Post) of risk and, to an extent, obligations. However, because the bank is one step removed from the transaction, it increases system risk. For a future model to be suitable in addressing the risk of financial crime, the focus needs to be less on meeting the minimum requirements of the legislation, and more on addressing the fundamental risk of money laundering and other nefarious activities. Any provider of such services must deal with the risks that financial crime presents to the community in a meaningful and substantive manner.

7 Considerations for the path forward

[Relevant to Question 7, Question 9, Question 10]

Key points of this section:

- **Access to cash and to physical banking services is too important for incumbent or dominant service providers to influence the market via "exclusive arrangements." It is important for the community that banks, businesses and consumers are free to receive services from any service provider**
- **The Bank@Post model has been suitable as a short term solution but is unlikely to be able to scale without significant and material change to its technology, physical and service model**
- **Financial crime has been shown repeatedly to be a significant risk, and any path forward needs to properly address financial crime and specifically AML/CTF risk – not just the risk for the provider or partner banks, but the fundamental risk that a service might be used to facilitate criminal activity**

We discussed briefly in section 2.1 the need for non-exclusive dealings between the two shared access networks and banks. This need is broader than just ATM networks, we believe it extends to the path forward for physical banking in general. As a reference, the Treasurer and the RBA have recently made two policy changes that reflect this need: in relation to debit card issuance and in relation to the ATM Access Regime[33]. Firstly, the RBA released a policy position in which it "expects all debit card issuers with more than $4 billion in debit transactions each year to continue to issue [dual network debit cards]." This policy step-in is designed to ensure that lower cost card schemes, which are fundamental to merchants being able to access least-cost routing (discussed in section 4), form part of card issuance. This is a clear example of a pro-competition policy position to ensure that the market

[33] https://www.rba.gov.au/media-releases/2021/mr-21-23.html

supports challenger models to deliver better outcomes for businesses and ultimately consumers. Secondly, the RBA issued an exemption from the long-standing ATM Access Regime. This exemption allows card issuers to access ATM fleets of multiple ATM operators. This exemption recognises the need for bank to be able to access multiple ATM networks to "help address some of the challenges associated with declining ATM use and rising costs of ATM deployment, and thereby help sustain broad coverage of ATMs." We understand anecdotally that some banks have been encouraged to enter into contractually exclusive arrangements around ATM access. We believe this is unhealthy for competition and will disadvantage the community.

As discussed in detail in section 6, the current Bank@Post model will face significant challenges if substantial increases in volume move to that channel, which creates challenges and risks to the community. These include security risks, the need for more trucks on the road, a rapidly degrading customer experience, and risks around financial crime. We believe that a solution that is genuinely fit for the future needs to come from a "bank solution-first" perspective, where it is built firstly to solve for the specific challenge that the Taskforce is addressing (reducing bank branch footprints), and only when this is solved consider other services. Regional banking can't be solved in the corner of a post office, it needs a dedicated solution.

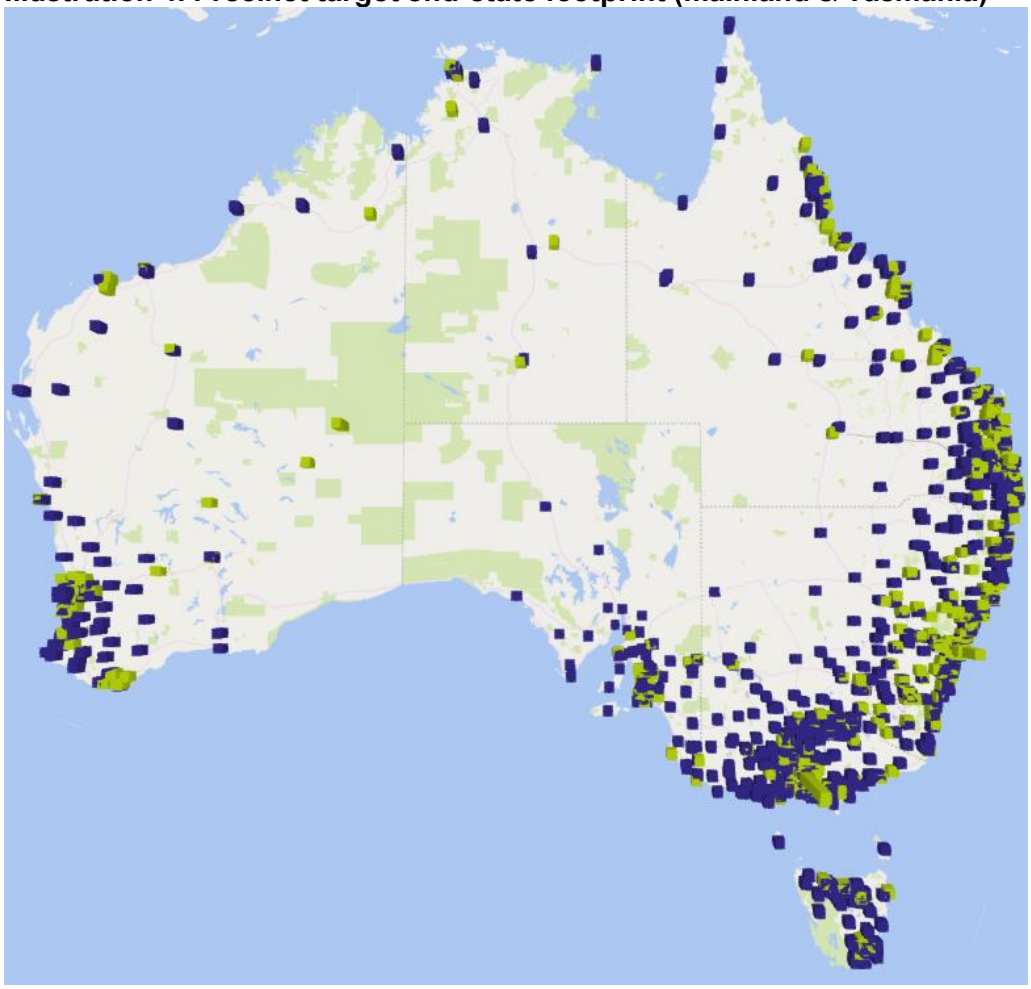
Extending from one of the challenges with the current model, we restate our view that financial crime needs to be fully considered in any go-forward model. The risk of money laundering and other criminal activity taking place will inherently increase as it is outsourced. Unless an outsource provider can play a substantive role in reducing risk to the community in relation to financial crime, it cannot be a viable alternative for the future of regional banking.

8 Precinct, a path for the future

Precinct has been actively working toward a solution that specifically deals with the challenge of reducing physical networks. Our focus is on:

- Delivering basic banking services, in particular transactional banking (deposits and withdrawals) as a priority
- Rapidly adding additional banking services on behalf of banks as part of an active product roadmap
- Deploying the Precinct network with an objective of ultimately providing services across all of regional/remote Australia. With sufficient support from banks, we aim to have much of the rollout completed within 3 years (end-state target shown below)
- Taking a "customer-first" approach to solution build, considering the needs of the customer, the need to assist customers with change and understanding how we can help them access services from their bank
- Building a model that does not give an avenue for financial crime to take place

Illustration 4: Precinct target end-state footprint (mainland & Tasmania)[34]



Blue=hub locations, Green=dispense and smart ATM locations

We are in the process of launching a series of pilots in order to test the model in deployed form. Our product build is highly agile, meaning we will adapt components of the solution as we get feedback from customers – to get better at the things that customers find strong, and to correct areas that customers believe are weak.

The Precinct model emphasises a number of things:

- Access to services for anyone in the community. Our pilot already provides this for customers of almost any bank, and based on our roadmap we expect customers of every bank to be able to access basic services during 2022
- Footprint build principles that think firstly about the delivery of banking services, rather than attempting to squeeze banking services into existing retail models
- A digital experience that compliments the physical experience – so that customers who are comfortable with digital technology can use this to get a better overall experience than they have today

With support from the banking industry and government policy to remove roadblocks and market inhibitors, we believe the Precinct model is a strong long-term solution to regional banking needs.

[34] Source: Precinct

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Appendix A: Issues Paper Consultation Questions

Context

1. How are Australians changing the ways they are accessing banking services? What are driving these changes?
2. What banking facilities, services and products are used in regional bank branches?
3. Are there particular banking products or services that need to be delivered face-to-face or have support provided face-to-face? Are any of these particularly important for regional customers?

Impacts

4. What are the impacts of regional bank branch closures on the banking needs of individuals?
5. What are the impacts on the banking needs of businesses, community organisations and communities?
6. Are there particular issues in the provision of banking services in regional Australia for specific vulnerable groups?

Bank support

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

Alternatives to closed bank branches

8. Are there facilities, services and products provided in bank branches that are not available through alternatives like ATMs, Bank@Post, phone banking, mobile banking, the telephone and the internet?
9. What are alternatives to bank branch models that would maintain or improve banking services and accessibility in areas where branches have been closed?
10. Are there any alternative models for the provision of banking services that could be considered for adoption by banks in Australia?
11. What are the lessons from Australian and international experiences that can help improve banking services and accessibility in regional communities where bank branches have been closed?

Appendix B: Precinct Financial Services Index

The Precinct Financial Services Index is a measure of the availability of physical bank channels relative to the residential population and business activity of a community.

Background

Underlying measurement uses the Australian Bureau of Statistics' SA2 level, because:

- This is the closest geo-statistical approximation to a small-medium regional town, where measurement is particularly important
- This is the closest geo-statistical approximation to a metropolitan suburb, which is a relevant measure of population and services
- The majority of relevant indicators are available at the SA2 level, including population, business activity and banking services. Other potential demographic indicators such as age, English-speaking status, income levels, etc, are also generally available at the SA2 level

The Precinct Financial Services Index is in development. Of particular note, there were material changes to SA2 boundaries between 2016 and 2021. Some data included in the index is available in the 2016 boundaries, while other data is available in the 2021 boundaries. Where boundaries have changed in particular by splits of SA2s, we have used reasonable efforts to apportion or consolidate the relevant datapoint to maintain applicability of the measure. However, for the index to be stable, we would look to ensure more consistent data application. Beyond this, the index requires stress-testing and reasonableness review to ensure that the quantitative outcomes are a reasonable reflection of the experienced reality in communities.

Measurement

An example of the calculation is shown following this explanation of the measurement.

Overall Financial Services Index:

> Sum of the Financial Services Index of the SA2 plus the sum of the Financial Services Index of the nearest five SA2s, each divided by the estimate distance from the SA2 being measured and each respective SA2

Financial Services Index of an SA2:

> Weighted Financial Services Measure of the SA2 divided by the Residential/Business Index of the SA2

Residential/Business Index of an SA2:

> The average of the adult population of the SA2 and the average of the estimated number of employees in the SA2 and the estimated turnover divided by 1,000,000 of businesses in the SA2

Weighted Financial Services Measure of an SA2:

> The sum of the Market Share Index of each Point of Presence within the SA2, divided by 100 and rounded up to the nearest integer

Market Share Index of a Point of Presence:

The market share of the bank times 1,000, and for Bank@Post outlets, 25. Bank branches are multiplied by 3

Bank market share is determined by the bank's share of deposits held by households, non-financial businesses and community service organisations as reported to APRA.

Worked example

A worked example of the calculation is now provided.

Profile of example:

- SA2 105031100 (Dubbo – East)
- Nearest five SA2s are:
  - 105031101 (Dubbo – South), 0.951km
  - 105031102 (Dubbo – West), 2,735km
  - 105031103 (Dubbo Surrounds), 12.992km
  - 105031105 (Narromine), 47.244km
  - 105031106 (Wellington), 50.443km
- Adult population is 7,538
- Estimate number of employees is 6,703
- Estimate business turnover is $1,517,950,000
- Bank points of presence:
  - 2017: Bank of Queensland ATM, Bendigo Bank branch, Cuscal ATM
  - 2021: Bank of Queensland ATM
- Relevant bank market shares (October 2021 data used):
  - Bank of Queensland, 1.533%
  - Bendigo Bank 2.922%
  - Cuscal 0.045%

Weighted Financial Services Measure

Bank site	2017 share	2017 market share index	2021 share	2021 market share index
Bank of Queensland ATM	1.533%	1533.42	1.533%	1533.42
Bendigo Bank branch	2.922%	8766.55		
Cuscal ATM	0.045%	44.78		
Total		10344.75		1533.42
Weighted Financial Services Measure		*104*		*16*

Residential/Business Index

Average(Adult population, Average(est employees, est turnover/1,000,000)
Average(7,538, Average(6,703, 1,517))
Therefore, Residential/Business Index is 5,824

Financial Services Index

2017: 104/5,824 = 1.786
2021: 16/5,824 = 0.275

Financial Services Index of 5 nearest SA2s

SA2	Distance	Financial Services Index 2017	Additive to overall index 2017	Financial Services Index 2021	Additive to overall index 2021
105031101	0.951 (round to 1)	76.084	76.084	56.688	56.688
105031102	2.735	2.452	2.452	0.144	0.144
105031103	12.992	0.003	0.003	0.003	0.003
105031105	47.244	0.784	0.784	0.693	0.693
105031106	50.443	1.563	1.563	1.094	1.094
Total			*80.886*		*58.622*

Overall Financial Services Index for Dubbo - East
In 2017: 1.786 + 80.886 = 82.672
In 2021: 0.275 + 58.622 = 58.897

precinct access network
sustainable access to your bank