

Secretariat,
Regional Banking Taskforce
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600

To the Chair

Regional Banking Taskforce 2021

Thank you for providing the opportunity to make a submission to the Regional Banking Taskforce.

The Regional Australia Institute (RAI) is an independent think tank that develops policy and advocates for change to build a stronger economy and better quality of life in regional Australia – for the benefit of all Australians. The RAI was established with support from the Australian Government. Since 2011, the RAI has been researching topics relevant to the prosperity and success of regional Australia, which is defined by RAI as all areas of Australia outside the capital cities. Home to one-third of Australia's workforce, the well-being of regional Australia is critical to the future of the nation as a whole.

Whilst the RAI have not undertaken specific research in relation to the use banking facilities in rural and regional Australia, our research across a number of other areas, including regional housing, has highlighted some relevant issues.

Reviewing the existing knowledge about access, use and satisfaction with the financial services sector amongst regional Australians highlights:

- Physical infrastructure – reductions in physical bank branches, ATMs and face-to-face service in regional Australia are having negative impacts on financial wellbeing (Regional Wellbeing Survey 2015, *Money Matters in the Bush* 2004, CSI 2011)
- Internet and digital banking – barriers of internet access and digital skills are accentuated in regional Australia (Deloitte 2019, *Money Matters in the Bush* 2004)
- In many more remote communities poor internet access means that the local ATM is the only point of contact with the banking system (Deloitte 2019)
- Accounts and credit cards – regional customers are less likely to have credit cards (CSI 2011) and are less likely to switch banks (Deloitte 2019)
- Role of the post office – growing role of post offices in delivering financial services in regional Australia and in 1,600 locations they are the only on-ground financial services provider (Australia Post 2020).

Access to banking facilities in Regional Australia

Access to bank branches, ATMs and face-to-face service often decreases with remoteness, and these services have been decreasing in the bush steadily over time:

- The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (2018) found that “in 2017, 28% of the population lived in regional or remote areas but only 4% of all branches of ADIs and 2% of ATMs were in remote or very remote areas”.

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- The Centre for Social Impact (2011) noted “the national average is 1 network ATM per 804 people. However, there was an average of 1 network ATM per 2,029 people in the 23 remote and disadvantaged areas with populations over 5,000 which were included in this study”.
- APRA data provided to the 2004 Inquiry by the Parliamentary Joint Committee on Corporations and Financial Services (*Money Matters In The Bush*) showed that the total number of non-metropolitan bank branches decreased by over 33% from 2,893 in 1990 to 2,165 in 2000.

The *Money Matters In The Bush* Inquiry in 2004 found that when branches close, residents and businesses experience a range of problems, including the effort, anxiety and costs associated with rearranging or transferring accounts, the inconvenience involved in travelling long distances to conduct face-to-face banking, and the uncertainty of having to adapt to new ways of banking. Although most financial services are available online, there are still some financial institutions which require customers to undertake certain activities in person, and some consumers prefer in-person contact for a variety of reasons.

However, the increased role that post office outlets could have in providing banking and financial services to regional Australia was also highlighted in the report of the 2004 *Money Matters in the Bush* Inquiry. Australia Post now has over 3,500 Bank@Post locations, 1,800 of which are in rural and remote locations (Australia Post, 2020) including 1,600 places where the post office is the only financial services retailer (AFR, 2020). These provide basic financial services to customers, such as withdrawals, deposits, transfers, credit card payments and balance inquiries. The number of Bank@Post locations are increasing, and were previously only in 2,800 locations (ME Bank). However these post offices do not provide all of the financial services that would be available through a standard bank branch. This includes in situations where a customer loses a keycard or debit card, or in situations where a customer is not able to satisfy identification verification requirements for telephone or internet banking.

Example from RAI research: Loan documentation

In 2021 the RAI completed a large scale project relating to regional housing, include an analysis of housing supply issues across Western Queensland. The role of local banking facilities was raised during consultation with a range of communities – specifically the centralisation of lending specialists. For people in smaller, rural communities without a local bank/lending specialist, this means that they would need to travel to a larger urban centre such as Toowoomba – a 1200km round trip for some people, to complete their lending documentation. The absence of local loan managers was felt to weaken lender knowledge of regional markets, contributing to difficulties having loan finance approved.

A survey of over 1,000 people by Deloitte in 2019 noted that the convenience of access to bank branches and ATMs is more highly valued by regional people than metropolitan people (valued by 49% of regional respondents vs 40% of metropolitan). This is indicative of the dispersal of financial services physical infrastructure in regional Australia.

In 2015, the University of Canberra conducted its third Regional Wellbeing Survey, with 13,300 respondents. The 2015 Survey found that the majority of regional Australians felt they had good access to ATMs (69%) and banking/financial services (68%), but only 55% felt they had good access to professional services. People living in regional Victoria were more likely to feel they had good access, whereas people living in regional Queensland were the least likely of all the states to report good access.

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Example from RAI Research: Local lending

In the same study of Western Queensland Housing the benefit of having a lending specialist located in the community was noted in terms of their local knowledge. Lenders living and working in town developed good local knowledge of the housing market and its idiosyncrasies – including an understanding of housing values based on issues such as build quality and susceptibility to natural disasters. This in turn informed lending practices in the region.

Financial wellbeing and inclusion in Regional Australia

The Australian Digital Inclusion Index (2020) indicates that regional and remote areas may suffer financial exclusion through reduced access to internet and digital services. Not all Australians are able to take advantage of the technologies and the technology itself has limitations. These limitations include the absence of facilities such as ATMs, EFTPOS, computer terminals, even telephones in the community; inadequate infrastructure to support the delivery of the service; costs associated with purchasing necessary equipment; and poor proficiency and lack of confidence in using the technology.

Example From RAI Research: Double-factor Authentication

Mandating internet-dependent innovations like multifactor authentication is excluding low income and remote customers from access to a basic suite of banking services as it assumes that all consumers have good quality access to multiple devices, and this is not the case for some consumers in regional Australia, especially those from disadvantaged communities.

The example was given of the move by many banks to ‘two factor authentication’ which in practice requires two working devices and a stable internet connection, both of which are often not available to low-income households and to remote households, preventing them from accessing the services they need to manage their finances.

“Financial wellbeing” is defined as being able to meet current and ongoing expenses and commitments, being financially comfortable to be able to make choices to allow one to enjoy life, feeling secure about the financial future, and having resilience to cope with financial adversity (Russell, Kutin & Marriner, 2020).

The concept of financial wellbeing usually requires some blending of a few different elements:

- financial literacy - financial knowledge and skills – frequently measured by people’s correct answers to 4-5 questions relating to understanding interest, diversification, and other core concepts
- financial capability - behaviour with money – frequently measured by asking people about their practices relating to management of day-to-day expenses, saving for the future (including super), and making informed choices about products as well as assessment of a person’s actual financial position, including level of debt, level of savings, and types of products held), and
- financial wellbeing – how a person feels about their current and future financial position and overall satisfaction (or lack thereof) with their finances (Russell, Kutin & Marriner, 2020).

There is very limited research exploring in depth the financial literacy, capability, or wellbeing of regional Australians. There have however been several surveys which do include an analysis of the impact of location on individuals’ financial literacy, financial capabilities, and/or financial wellbeing

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Wave 16 of the Household, Income and Labour Dynamics in Australia Survey as reported in the 2018 Annual Report (HILDA, 2018) asked a number of questions relating to respondents' financial literacy, capabilities and stress. Financial literacy was measured by people's correct responses to five questions testing numeracy, inflation, diversification, risk-return and money illusion. The research found little difference in financial literacy levels for people living in regional Australia compared to urban areas (defined as towns greater than 100,000 people). Financial capability was measured by measuring agreement with nine statements such as "I feel confident about the financial decisions I make" and "I feel very comfortable dealing with banks and other financial institutions". Unfortunately, the 2018 Annual Report did not analyse these results according to geography. In relation to financial stress, defined as experiencing two or more of a list of events (e.g. could not pay the mortgage or rent on time) due to being short of money, regional respondents were about 2.7% less likely to be experiencing financial stress than urban respondents (defined as those living in towns of 100,000 or more).

Joint research by the Commonwealth Bank of Australia and the Melbourne Institute in 2018 measured both self-reported and observed financial wellbeing of CBA's customers against a range of measures. They compared the results for customers in regional Australia with those in urban Australia, and found that "financial wellbeing does not vary much with geography." Key drivers of strong financial wellbeing were income, wealth, and certain behaviours and attitudes towards money; once controlled for these variables, geographical location was not a major factor in financial wellbeing.

Both HILDA and the CBA/Melbourne Institute research only provide an analysis at a high level of overall financial wellbeing. However, the ANZ Financial Wellbeing survey in 2015 did look more closely at particular financial behaviours and whether there were differences at a regional/urban level. The survey found that residents living outside capital cities had a statistically significant stronger performance for "keeping track of finances", but were not as strong at "staying informed" and having financial control, when compared to urban residents.

Since December 2019, ANZ and Roy Morgan have published six monthly Financial Wellbeing Indicator Updates using data from regular Roy Morgan surveys. Their reports include state-by-state comparisons, as well as looking at financial wellbeing by occupation, age, and household composition; unfortunately they do not report on financial wellbeing of regional vs urban Australians.

The University of Canberra's Regional Wellbeing Survey includes questions related to financial wellbeing. The most recent published data from 2018 provides the results of the survey based on respondents' location, down to the level of local government areas (LGAs) or Regional Development Areas (RDAs).

For household financial wellbeing, at a national level there was no difference between the mean 'score' (measured from 1 as lowest level of financial wellbeing to 7 as highest) for regional Australians compared to urban Australians: the mean for both was 3.7, and this did not change across inner regional, outer regional, remote or very remote. However there was wider variation at the level of individual LGAs or RDAs. As just one example, the average financial wellbeing index for Cabonne / Orange LGAs in NSW was 4.3, while the average in Wide Bay Burnett RDA in Qld was 3.1.

For financial distress, there were some significant differences based on their location. The percentage of the respondents who reported 2 or more of the financial stress factors were as follows

- 21.9% of all Australians who responded to this part of the survey (13,199 respondents in total)
- 20.1% of urban Australians (3,430 respondents)
- 24% of regional Australians (9,769 respondents) – which masks substantial differences based on remoteness:
 - 26.6% of remote Australians (398 respondents)
 - 12% of very remote Australians (only 142 respondents)

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The Report on the 2015 survey also found that:

- People living in regional Western Australia were most positive about their financial wellbeing, but people in regional South Australians were least positive.
- People aged 65 and older, and those aged 18-29, reported lower financial wellbeing compared to middle aged groups (those aged 30 to 64)
- People in paid work reported better financial wellbeing than those without paid employment
- Farmers reported lower financial wellbeing than those working in other industries
- 44% of regional Australians reported experiencing some form of financial stress in the 12 months before the survey – most common indicators of financial stress were skipping planned social events holidays or difficulty affording non-food expenses
- Over the same period, 4-5% of regional Australians reported severe financial stress where they were unable to meet mortgage repayments or rent fees, or had to go without food.

Importantly, many aspects of life for consumers and business owners in regional Australia are different from their metropolitan counterparts, and these differences are accentuated with increasing remoteness. While 'on average' many indicators of financial wellbeing show that regional consumers are on par with the metropolitan counterparts, this regional averaging belies the wide variations in socio-economic conditions and satisfaction with financial services across regional Australia.

Kind regards



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