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5th July 2012

Dear Dr Richards

### **Proposed Variation to the Access Regime for the ATM System**

The Centre for Rural Regional Law and Justice at Deakin University (the **Centre**)<sup>1</sup> welcomes the opportunity to respond to the Consultation Document on the Proposed Variation to the Access Regime for the Automatic Teller Machine (**ATM**) System (the **Consultation Document**) released by the Reserve Bank of Australia (**RBA**).<sup>2</sup> This submission has been prepared by Centre fellows James Farrell and Professor Louis de Koker and Centre Director Richard Coverdale, on behalf of the Centre for Rural Regional Law and Justice.

The Centre:

- welcomes the proposed variation to the access regime for the ATM system, noting the particular accessibility issues faced in remote indigenous communities;
- requests clarification about the scheme or schemes that will benefit from changes made under the proposed variation;
- expresses concern that ATM-focused relief should not diminish the focus on the need for face-to-face assistance and financial advice for members of very remote communities; and
- points out the continuing plight that members of rural and remote communities face when accessing financial services.

### **We welcome the proposed variation**

The Centre welcomes the extension of the Reserve Bank's exemption power in respect of the Access Regime's interchange fee provisions, as outlined in the Consultation Document. The use of the

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<sup>1</sup> More information about the Centre is **attached**.

<sup>2</sup> Reserve Bank of Australia, *A Variation to the Access Regime for the ATM System: Consultation Document* (May 2012).

**Centre for Rural Regional Law and Justice**

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extended power to provide access to charge-free ATMs in very remote Indigenous communities is just one example of an appropriate use of these extended powers.

**We request clarification about the scheme or schemes that will benefit from changes made under the proposed variation**

We note that the Treasurer has suggested that the following criteria were used to identify ATMs for inclusion in an arrangement:<sup>3</sup>

- the ATM is located in very remote Indigenous communities based on indicators of remoteness provided by the Australian Bureau of Statistics;
- the ATM is located in a community store (and not in venue that provides alcohol or gambling services); and
- the residents of these very remote Indigenous communities lack access to an alternative retail banking service, such as a bank branch, bank ATM, post office (Bank@Post) or Traditional Credit Union branch.

The terms of the arrangements have, however, not been made public. This leaves important questions that should ideally be considered when the proposed powers are exercised:

- Are the community stores that are included in this initiative privately-owned or not (ie do they have a profit motive or are they not-for profit institutions)?<sup>4</sup> This information will assist in the assessment of the impact of free services in the particular community.
- Do any of the selected communities have alternative providers of non-alcoholic or gambling services? As the scheme focuses on community stores and excludes venues providing alcohol or gambling services, the scheme may raise competition issues as an ATM location provides distinct business advantages to the hosting business that would increase if the services are offered for free.
- Will the scheme provide financial support for stores to ensure that they retain their income stream in relation to the ATMs? If not, it is possible that they may increase the prices of their products to supplement the lost revenue.<sup>5</sup>
- Is the scheme is confined to the current 76 ATMs or would it extend to all very remote communities that may meet the criteria for inclusion in the future? In the latter case it would be important to review how other communities will be monitored to ensure that those who do meet the criteria are identified and expeditiously included in the scheme.

It is submitted that answers to these questions are relevant from a competition perspective as well as from a broader financial and social inclusion perspective.

**We hold that ATM-focused relief should not diminish the focus on the need for face-to-face assistance and financial advice for members of very remote communities**

While free ATM services are welcomed, it does not empower community members to manage their financial affairs well.

Financial inclusion research by the World Bank-based *Consultative Group to Assist the Poor (CGAP)* shows that, under appropriate conditions, people on low incomes have a great ability to save money, thereby improving their lives and those of their families. Free ATM services may foster a savings culture or may undermine it, for example where ATMs do not facilitate additional financial services such as depositing into savings accounts. Whether ATM services have a positive or negative impact on savings depends on the financial capability of the user. In this regard there is reason for

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<sup>3</sup> The Hon. Wayne Swan MP and the Hon. Jenny Macklin MP, 'Fairer deal on ATMs for remote indigenous communities' (Media Release, 25 May 2012).

<sup>4</sup> House of Representatives Standing Committee on Aboriginal and Torres Strait Islander Affairs, *Everybody's Business: Remote Aboriginal and Torres Strait Community Stores* (November 2009) [6.1]-[6.3].

<sup>5</sup> *Ibid*, [6.17].

concern. The ATM Taskforce suggested, for example, that particular behaviours (frequent balance enquiries and cash withdrawals) in the relevant communities reflect '*a lack of both infrastructure and financial literacy, as well as some specific cultural issues facing Indigenous Australians*'.<sup>6</sup>

Appropriate advice and support is crucial and the focus on free ATM services in these communities should not diminish the focus on the need for appropriate financial advice. In many of these communities such advice is best rendered in person.

We suggest that one practical step that should be taken is to undertake or commission independent research to monitor the impact of free ATM services in these communities and to amend the arrangement where appropriate.

### **We highlight the continuing plight that members of rural and remote communities face when accessing financial services**

The ATM Taskforce report identified around 600 ATMs in very remote areas of Australia,<sup>7</sup> but did not provide information about the number of ATMs in remote, rural or regional areas of Australia. The ATM industry proposal prompting the changes to the Access Regime suggests providing charge-free ATMs in 76 of these communities.<sup>8</sup>

While the proposal alleviates the plight of the 76 communities, it still leaves important questions unanswered and does not address the position of the majority of remote rural communities.

The ATM Taskforce also notes that '*ATMs are an efficient means of providing a critical service for residents in remote Indigenous communities, who are more reliant on ATMs than other Australians*'.<sup>9</sup> The increased reliance on ATMs raises important questions in relation to rural populations.

#### **Reliance on ATMs**

The increasing reliance on ATMs and EFTPOS-based cash withdrawal as the principal form of financial transactions is of concern, particularly for many rural and remote Australian communities where the option of direct face to face contact with banking services may not exist.

Rural Australians are often disadvantaged in comparison to their metropolitan counterparts across a number of measures. Key indicators show that rural Australia contains areas with some of the lowest levels of literacy, academic achievement, income, employment and health.<sup>10</sup> This is also reflected by the reduced level of services available in many rural and remote communities across health, transport and education and more broadly with withdrawal of commercial, profession and community services in many communities. A decline in locally based government services and amalgamations of local governments further compounded this drain on rural towns.

The withdrawal of financial and banking services in rural communities has accompanied and compounded this inequity. The 1990's saw a major restructuring of banks with the closure of over 2000 staffed banking services around Australia by 2001.<sup>11</sup> This alarming decline prompted a Joint Senate Committee *Inquiry into the Level of Banking and Financial Services in Rural, Regional and Remote Areas of Australia*.<sup>12</sup>

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<sup>6</sup> ATM Taskforce, *Report on Indigenous ATM Issues* (28 February 2011) 3.

<sup>7</sup> Ibid, [6].

<sup>8</sup> The list of ATMs is available at [http://archive.treasury.gov.au/banking/content/downloads/remote\\_atm.pdf](http://archive.treasury.gov.au/banking/content/downloads/remote_atm.pdf).

<sup>9</sup> ATM Taskforce, above n 6, 3.

<sup>10</sup> Australian Institute of Health and Welfare *Australia's Health 2010* (June 2010) 245.

<sup>11</sup> Parliamentary Joint Committee on Corporations and Financial Services *Money Matters in the Bush: Inquiry into the Level of Banking and Financial Services in Rural, Regional and Remote Areas of Australia* (2004) Chapter 2 - *Bank branch closures in rural, regional and remote Australia*.

<sup>12</sup> Ibid.

Face to face banking services have continued to decline in rural, regional and remote Australia. Australian Prudential Regulation Authority (**APRA**) figures indicate that from 2003 to 2011 there has been an 8% decline in moderately accessible, remote and very remote face to face banking services, while the number of metropolitan services have slightly grown.<sup>13</sup>

The retreat of banking and other professional services from smaller rural communities has resulted in a decline in the social capital within those communities and impacted on the social and economic viability of smaller communities. Many small towns have passed the tipping point with insufficient local human resources, expertise and enterprise necessary to sustain and grow.

The lack of face to face banking services, other professional services and the associated social capital within smaller communities has a direct impact on the level of financial inclusion and financial literacy within those communities. Financial literacy is variously defined, but at a minimum, the Australian Securities and Investment Commission (**ASIC**) has described it as *'the ability to make informed judgments and to take effective decisions regarding the use and management of money....(and is a) vital skill for all consumers.'*<sup>14</sup> The cost of financial illiteracy for consumers was demonstrated by a 2003 ASIC investigation into prospectuses and scams, which found that over the preceding three year period, the cost to consumers amounted to \$800m.<sup>15</sup>

In relation to the commercial benefit of financial literacy, a 2005 joint Monash University and Commonwealth Bank research report revealed that, if efforts are focused on improving the financial literacy of the 10% of the population with the lowest understanding in this area, Australia's economy could be boosted by \$6 billion per year with the creation of 16,000 new jobs.<sup>16</sup>

Financial exclusion, defined in a recent report by the Centre for Social Impact and NAB Bank as a lack of access to 'appropriate and affordable financial services and products', describes exclusion as encompassing 3 core 'needs':

- ability to manage day to day transactions and payments;
- access to a moderate amount of credit; and
- the ability to protect key assets (a minimum range of insurance products).<sup>17</sup>

The report suggests that around 17.2% of the adult population in Australia were either fully excluded or severely excluded from financial services in 2011.<sup>18</sup> Those areas most excluded under this definition included *'poorer inner-city areas or poorer outer suburbs of the major capitals, or ... very large remote and rural areas'*.<sup>19</sup> While only a relatively small sample group of Aboriginal and Torres Strait Islander people were surveyed in this report (225), 43% of those participating were defined as either severely or fully excluded - a significant over representation compared to the national average of 17%.<sup>20</sup>

ATMs are an important facility to access account balances and make withdrawals, particularly for those remote aboriginal communities the ATM Taskforce identifies. But on their own, the better regulation and informed usage of ATMs goes only a small way in improving financial inclusion and financial literacy within the communities they are located or rural and remote Australia generally.

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<sup>13</sup> Australian Prudential Regulation Authority, *Statistics: ADI Points of Presence* (August 2011) 6.

<sup>14</sup> Australian Securities and Investment Commission, *Consultation Paper 14: Financial Literacy in Schools* (2003) 7.

<sup>15</sup> Ibid.

<sup>16</sup> Monash University and Commonwealth Bank of Australia, *Improving financial literacy in Australia: benefits for the individual and the nation* (2005).

<sup>17</sup> Centre for Social Impact and NAB Bank, *Measuring Financial Exclusion in Australia* (May 2012) 11.

<sup>18</sup> Ibid, 6.

<sup>19</sup> Ibid, 34.

<sup>20</sup> Ibid, 26.

RBA commissioned research indicates that the number of ATMs in Australia is continuing to rise, with 29,500 ATMs currently, compared to 27,000 in the year before the 2009 direct charging reforms.<sup>21</sup> This is in direct contrast to the continuing decline in the number of face to face banking services in rural and remote Australia.

We contend that governments and the banking industry have an obligation to improve equity across Australian communities in the level of financial inclusion and financial literacy and this has a direct effect on the economic and social wellbeing of rural and remote communities. The ATM Taskforce's report on indigenous ATM issues<sup>22</sup> acknowledges the need for improved literacy programs and the role of government, industry and community groups in responding. The Taskforce report also outlines the potential for improved education in ATM usage and better utilisation of Authorised Deposit Institutions. However, the continued decline of face to face banking services and increasing reliance on electronic banking for many rural and remote communities makes any genuine, long term strategies to improve financial literacy and inclusion extremely challenging. Improvements to ATM regulation and informed usage, should not obviate this broader obligation of both government and the banking industry to addressing financial inclusion and literacy.

### Conclusion

The Consultation Document discusses where the Reserve Bank may vary the Access Regime,<sup>23</sup> including whether the variation would be in the public interest, and considering the interests of current participants in the system and people who may want to access the system in the future.

The proposed variation to the Access Regime will allow the current proposed initiative to better meet the needs of 76 remote indigenous communities, and should be commended. However, in light of the comments above, the Bank should provide further guidance to show where they will grant exemptions under the new paragraph 17, and consider other, rural and remote communities that would benefit from similar concessions on the basis of independent research identifying barriers to access, low financial literacy or capacity, and particular vulnerability or disadvantage.

We would welcome the opportunity to discuss these issues further. Please direct contact to Richard Coverdale on (03) 5227 2245 or [richard.coverdale@deakin.edu.au](mailto:richard.coverdale@deakin.edu.au).

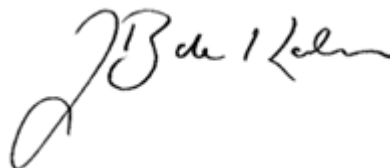
Yours sincerely,



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<sup>21</sup> Darren Flood, Jennifer Hancock and Kylie Smith, *The ATM Reforms – New Evidence from Survey and Market Data* (Reserve Bank of Australia, March 2011).

<sup>22</sup> Above n 5.

<sup>23</sup> See *Payment Systems (Regulation) Act 1998* (Cth) s 14(1)

Attachment:

### **About the Centre for Rural and Regional Law and Justice**

The Centre for Rural and Regional Law and Justice (the Centre) is a unique centre of the Faculty of Business and Law at Deakin University, which draws on cross disciplinary knowledge and expertise, and provides an opportunity to engage meaningfully with regional communities, services, industry and government.

The Centre aims to enhance access to improved justice systems and services for rural and regional Australians through research, education, engagement and advocacy.

The Centre operates within the context of:

- The need for a forum of regional organisations dealing with or representing clients experiencing justice system services and those within relevant academic disciplines, to articulate and share a coherent voice.
- The need for informed research which is practical, relevant and applicable which focuses on improving access to and the delivery of equitable law and justice system services to rural and regional Australia.
- A growing acknowledgment by government and policy makers of the need to better respond to the social, economic, environmental and natural resource management issues for regional Australia - all of which hinge on the delivery of an effective system of law and justice to those communities.
- The Centre's alignment with and advancement of the Deakin University Strategic Plan, with particular reference to the University's Mission to be 'a catalyst for positive change for the individuals and the communities it serves' and the Core Commitments to 'rural and regional engagement' and 'research that makes a difference'.

The role of the Centre for Rural Regional Law and Justice is to:

- Undertake applied research which draws on a breadth of academic disciplines in priority areas identified through consultation with rural and regional communities, services, industry and government.
- Act as a forum to inform and share knowledge with communities and key organisations and provide an effective regional voice on law and justice issues to government.
- Deliver services to inform, advise and support government, communities and industry in the development and provision of 'best practice' law and justice related services, programs and policies, impacting on rural and regional Victoria.

More information is available at <http://www.deakin.edu.au/buslaw/law/rrjc/index.php>