Submission to the Parliamentary Joint Committee on Corporations and Financial Services Inquiry into the Level of Banking and Financial Services in Rural, Regional and Remote Areas of Australia

Jon Altman and John Taylor
Centre for Aboriginal Economic Policy Research, Australian National University, ACT 0200
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Introduction

1. The Centre for Aboriginal Economic Policy Research (CAEPR) is a multi-disciplinary social sciences research centre established in 1990 at The Australian National University (ANU) to conduct research on issues related to the development and enhancement of Indigenous economic and social policy. The terms of reference for the Committee’s inquiry identify four broad areas of interest, each of which can be informed, either directly or indirectly, by research conducted at CAEPR.

2. The multi-disciplinary nature of the Centre has meant that research on these issues has been approached using a number of different perspectives by CAEPR staff: the disciplinary ‘lenses’ of anthropology, economics, health, political science and demography have all been employed. However, it should also be noted that CAEPR does not have economics expertise in money and banking—the Centre’s engagement with this research area is principally a strategic response to the under-representation of Indigenous stakeholder voices in discussions about the delivery of banking and financial services to rural, regional and remote areas of Australia where Indigenous people disproportionately reside (when compared to the total Australian population).

3. While there is no single corporate view among CAEPR staff, CAEPR research emphasises the importance of cultural and institutional factors in understanding the articulation of Indigenous Australians with the wider market economy and the state. This submission provides a summary of research relevant to each of the Inquiry’s terms of reference.

TOR (a): Options for making additional banking services available to rural and regional communities, including the potential for shared banking facilities

4. A number of CAEPR studies have examined innovative strategies to expand banking services to remote communities. The Tangentyere bank agency in Alice Springs is an initiative of Westpac designed to improve Indigenous access to banking and financial services. The Tangentyere Council has a Westpac agency operating from its premises and provides face-to-face services for up to 2,000 Indigenous people residing in Alice Springs town-camps. People who cash their cheques at the bank can pay their rent and electricity bills on site. In addition, people can exchange cash for food vouchers for use at the Tangentyere supermarket. The agency offers bank accounts with no account keeping fees, no
minimum monthly balance requirement and six free transactions per month. The Tangentyere agency does not aim to run a commercially viable banking business but rather focuses on offering essential banking services for local Indigenous consumers. It is a not-for-profit service organisation and meeting such a ‘community service obligation’ is consistent with its charter.

5. The Traditional Credit Union (TCU) operates eight branches in remote communities in the Northern Territory. The majority of staff are Indigenous and community-based customers can communicate with TCU staff in their local languages. The TCU provides banking services, manages periodical payments and loans as well as providing financial counselling to members (Westbury 1999). In addition the TCU offers members ‘clan accounts’ so that groups can save for cultural activities. ‘Christmas Club accounts’ are also available to assist budgeting by people with low cash incomes for special occasions.

6. The First Nations Credit Union operates throughout Australia and offers savings and transaction accounts, insurance, financial planning, ATM cards, cheque, loans and budget accounts and includes a range of Indigenous-specific products. The Tangentyere bank agency, the TCU and the First Nations Credit Union are all engaged in financial literacy training. All of these culturally-sensitive institutions could be greatly assisted further via more active partnerships with the larger financial institutions with which they are already linked.

7. Rural Transaction Centres (RTCs) have been established by government to help small rural communities with access to basic banking services. Such existing innovations could be further refined by, for example, amending guidelines to encourage smaller communities to join together to form regional service area that could benefit from economies of scale and that may attract mainstream consumer and commercial banks to provide much needed services (see below).

8. The case for enhanced banking and financial institutions in remote areas has also been made with reference to the growing needs of emergent Indigenous businesses (Altman 2001, 2002). Increasingly, emerging enterprises lack access to even the most rudimentary services such as deposit and withdrawal facilities, as well as business advisory services. One financial strategy frequently touted to assist in remote area enterprise development is the provision of tax incentives for indigenous businesses and/or joint ventures. Stanley (2002) has explored these options and identifies a number of structural and practical obstacles to their effective adoption in Australia.

9. The need for innovative strategies has also arisen in the context of CAEPR research on welfare reform in Indigenous communities (Smith 2001). Recommendations from this work focus specifically on the lack of banking facilities generally available in remote communities, and the lack of financial literacy amongst many Indigenous community residents. It is argued by Smith that an integral part of any strategy to ameliorate welfare dependence would be the provision of financial information, services, and income management options that are currently unavailable in remote communities.
10. One aspect of this work is a proposal to pilot a Money Management Project with individuals and families at Mutitjulu as part of a wider Community Participation Agreement which would provide participants with urgently needed access to financial services including a community banking agency or credit union with capacity to:

- immediately provide an automatic teller machine in the community;
- provide for small loans;
- enable frequent transactions;
- encourage the transfer to full electronic banking;
- promote savings and deductions for the regular payment of accounts; and
- provide ongoing training and employment for local Anangu (Indigenous people).

11. Smith (2002) also explores the wider role of banking services in the context of developing effective governance for remote Indigenous communities. This is seen as undermined by the absence of local financial services and streamlined financial management systems, as well as the lack of a sustained process of capacity development in financial literacy and management. According to Smith’s research, this needs to be urgently addressed by the:

- development of a coordinated process for the sustained development of the financial, governance, and institutional capabilities needed for effective community self-determination
- establishment of a national Indigenous Financial Management and Training Institute to identify relevant best-practice in accounting and financial management for communities, to provide financial capacity building, training and mentoring, and to operate a system of financial management accreditation for community governing bodies and their staff; and
- development of community operated financial database and evaluation processes relevant to local circumstances, needs, and national standards.

12. Special needs for training in financial management and decision-making are also recommended for Aboriginal organisations (such as royalty associations) that are undertaking important financial functions (Altman and Smith 1994, 1999). In performing their primary function of receiving, managing and distributing moneys, royalty associations in the Northern Territory have become multi-dimensional financial organisations offering flexible membership and organisational frameworks, and delivering a wide range of social, economic, cultural and political services. Arguably then, they could benefit significantly from refining and targeting their professional skills and services in key financial areas within that niche. As a result of their critical operational jurisdiction, royalty associations as a class have assumed a multiplicity of roles with implications for financial management:

- financial agents, advisers and intermediaries on behalf of their membership and other incorporated associations;
- managers of investment portfolios;
- business administrators with employees and staff;
• enterprise developers and joint venturers;
• service providers to their membership (delivering, amongst others things, outstation, health, education, training, housing and infrastructure, accounting, transportation, land management and conservation, employment, and cultural services);
• resource and community development agencies;
• financial training and educational institutions;
• property owners and landlords; and
• charitable trusts and welfare organisations.

13. To enhance greater performance outcomes in this arena, associations should:

• specifically target the delivery of key financial services, including financial education, training and employment for their Boards and members to further enhance their niche market position (these services could include accounting, financial and commercial advice, budget management, employment, training and workshops); and
• obtain regular, independent commercial and financial advice, and strategic planning, either separately or as a consortium or from organisations such as Indigenous Business Australia (which should have a statutory function to provide such advice to associations).

TOR (b): options for expansion of banking facilities through non-traditional channels including new technologies

14. This is not a specific area that CAEPR research has invested in heavily. However, to the extent that internet and telephone banking are at the leading edge of service delivery modes, an exception is Daly’s (2001) research on the implications for Indigenous people in remote areas of changes in the technological and regulatory environment in the telecommunications industry is highly relevant. Individuals in remote communities are particularly vulnerable to falling on the wrong side of the ‘digital divide’ because of their geographical location and their low socioeconomic status. Daly presents evidence on the current availability and quality of services and the demand for these services in rural and remote Australia. The evidence suggests that the telecommunications services available to remote communities are inferior to those in urban Australia, although given the nature of the industry (particularly the economies of scale and scope) substantial government intervention has helped to reduce the gap.

15. Whatever the opportunities presented by new technologies, CAEPR research stresses the importance of recognising that provision of technology alone will not resolve the problems facing rural and remote Indigenous communities. Issues such as language barriers, and lack of financial and technological literacy will also need to be addressed, while a cultural preference for face-to-face banking services is also noted (Westbury 2000).
TOR (c): the level of service currently available to rural and regional residents

16. In the context of a rapidly changing Australian financial sector, CAEPR research has noted the decline in the availability of banking and financial services in rural and remote Australia and the fact that this has disproportionately impacted on Indigenous communities (McDonnell & Westbury 2001). The removal of banking services from remote and rural communities has particular welfare implications for the relatively large, and increasing, Indigenous populations in such places (Taylor 2002a). While the House of Representatives Standing Committee on Economics, Finance and Public Administration (HRSCEFPA) inquiry into financial deregulation acknowledged this prospect, CAEPR research has highlighted the likelihood of further marginalisation of Indigenous people with respect to access to financial services. While changes in the competitive forces within the banking sector, the introduction of new technology, and changing consumer demands may have had positive impacts on many consumers, they have had a number of negative impacts, particularly for low-income consumers among whom indigenous people are disproportionately represented.

17. The consequences of this structural change for Indigenous communities have been assessed, including the current levels of service provision and options for improvement, as well as the effects of low levels of Indigenous financial literacy and access to credit for Indigenous people (McDonnell 1999a, 1999b; McDonnell and Westbury 2001, 2002; and Westbury 1999, 2000. The proposition that an alternative model for the delivery of financial services or re-regulation of the financial sector is required to protect the interests of Indigenous people has also been explored (McDonnell and Westbury 2001). The effects of deregulation are found to be exacerbated by the historical lack of equitable access to financial services, and comparatively low current socioeconomic status.

18. The highly dispersed pattern and small scale of Indigenous settlement across much of remote and very remote Australia has substantial implications for access to banking and financial services (Taylor 2002a, 2002b). Approximately 28 per cent of the Indigenous population is resident in areas that are remote from centres of population and their attendant services, including banks. This compares with barely 3 per cent of the non-Indigenous population. More specifically it is calculated that some 16 per cent of the Indigenous population live more than 80km from a bank (compared to just 0.6 per cent of non-Indigenous people), and often at distances much greater than this.

19. In estimating the level of service currently available to rural and regional residents, it is important, though, to separate personal from corporate needs. As banking services turn increasingly to electronic modes of interaction, branch office activities have retreated to the larger population centres, leaving much of the Indigenous population in remote Australia more detached than ever from the face-to-face advice and assistance that it requires disproportionately for reasons including low literacy levels and lack of access to internet banking options.
20. Major issues arise for the banking sector with regard to the infrastructure provided to service personal accounts in remote Indigenous communities. Clearly, bank branches and keycard facilities cannot be provided in every locality. Discussion at a workshop ‘Banking and Financial Services for Indigenous Communities and Regions’ convened by Reconciliation Australia, ATSIC and Indigenous Business Australia in Sydney in May 2002 suggested a population threshold of 500 persons as the minimum requirement to sustain basic facilities. But the whole question of just what an appropriate threshold comprises, and whether regionalised forms of service delivery aimed at maximising economies of scale efficiencies are feasible, and in what way, remains to be addressed.

21. No doubt, one factor contributing to the cost-benefit of service provision from the banking sector’s perspective is the absolute and relative low dollar value of personal accounts, especially in remote areas. With high welfare dependence and low home ownership, the Indigenous population does not present a profitable target group, although evidence from the experience of the Bank of Montreal suggests that a strategic approach by a major commercial bank might prove surprisingly profitable (McDonnell and Westbury 2002). CAEPR research suggests that banking services in the bush will need to be customised to the needs of low income account holders; will need to be innovative in enabling access to scattered populations over vast distances; and may require more—not less—face-to-face services, if only with the objective of providing customer ‘financial literacy’ education.

22. Income and expenditure patterns in Indigenous communities are characterised by feast and famine cycles (see Smith 2000; Westbury 1999). Three main features contribute to this: low cash incomes, socially and culturally influenced patterns of immediate expenditure, and low levels of access to savings. These extremes of consumption and need are compounded by the fortnightly frequency of Centrelink payments. Currently the Tangentyere Council is trialing a weekly payments system to ameliorate income fluctuations over the fortnightly cycle and associated periods of scarcity. The problems associated with cheque-based welfare payments have contributed to Centrelink’s move to electronic-based payments, and the Tangentyere project was partially established to address this transition and to provide a case study of options for the adoption of new technologies.

23. In considering access to banking and financial services, the Inquiry needs to reflect on the distinctive and diverse cultural value systems of Indigenous people that relate to economic practices. Schwab (1995) and Martin (1995) examine some of the ways in which Indigenous people conceive of, and relate to, cash and consumable goods. Schwab’s research highlights the manner in which individuals and groups make decisions regarding the provision of economic assistance to one another based on distinct cultural principles. Using a community case study, Martin reveals strategies that Aboriginal people have developed to incorporate cash into the Indigenous domain. Such findings contribute to an understanding of the articulation of many Indigenous Australians to the wider economy, and what innovations may or may not work in relation to banking and financial services.
24. An historical lack of access to banking services, and long-standing provision of cheque-based welfare payments, has contributed to a significant level of reliance on informal finance providers in many communities. ‘Book-up’ with stores, merchants, taxi drivers, hotels or hawkers, is a relatively common practice among Indigenous and some non-Indigenous people in remote communities. Issues related to this practice, and the often complex sets of relationships that surround it, are discussed in several CAEPR studies (Altman, McDonnell & Ward 2002; McDonnell & Martin 2002; Taylor and Westbury 2000: 48). While book-up practices occur even in locations where mainstream banking services are available, it is clear that it is most prevalent where such services are absent. Responses to the issue of book-up are not as straightforward as they may initially appear. It may be, for example, that book-up practices that initially appear to be unconscionable, are at the same time benefiting Indigenous people (for a more detailed discussion of this point see McDonnell and Martin 2002). Many such issues are discussed in a report Consumer and Competition Issues for Indigenous Australians that was recently completed for the Australian Consumer and Competition Commission (ACCC) by CAEPR and that is to be published in September 2002.

TOR (d): International experiences and policies designed to enhance and improve the quality of rural banking services

25. While the need to keep pace with international best practice is often touted as justifying the changes occurring in Australia’s banking sector, Westbury (1999) points out that this sector has been tardy in adopting international best practice for delivering services to Indigenous communities. The Bank of Montreal, which has adopted a deliberate strategy of attracting Indigenous customers since 1992, provides a case in point. Its strategy has included:

- an active policy of employing Canadian indigenous people (targeted goal of 2 per cent indigenous employment—500 employees—now achieved and being lifted to 3 per cent);
- establishment of 20 small branches in remote indigenous communities, some in partnership with Canada Post;
- the establishment of 15 separate branches, each with at least one employee who can speak the local traditional language;
- the development of a range of loan products and procedures specifically designed for indigenous communities;
- a protocol agreement on dealing with indigenous clients; and
- multi-year community grant funding provided by government being deposited in the bank and accepted by the bank as collateral for other loans.

26. McDonnell and Westbury (2002) have also examined the functions and operations of the Community Development Financial Institutions Fund (CDFI) which was established in the United States in response to access difficulties for low-income groups, especially those in rural and remote areas. CDFIs include community development banks, credit unions, loan funds and multi-bank community development corporations. A CDFI-type program could be modified...
to operate in remote Australia and facilitate on-lending by major banks to Indigenous-specific lending institutions (McDonnell and Westbury 2002).

27. CAEPR has also explored the use of micro-credit models to facilitate poverty alleviation among Australian Indigenous communities (see McDonnell 1999a). These models, such as that created by the Grameen Bank in developing countries, work to provide small amounts of working capital and funds for equipment purchase to entrepreneurs too poor to qualify for commercial loans. The key element of the Grameen Bank model is its peer group lending structure, which fosters mutual accountability for loans among borrowers. Case studies of replications of micro-credit programs with Indigenous communities in America and Canada show that it is possible to adapt these programs to developed countries. However, policy-makers may encounter a series of problems when trying to adapt a similar model to Australia. In particular the presence of low population density, welfare payments availability, limited investment opportunity and distinct Indigenous cultural practices are all issues that will need to be addressed if such a model is to prove commercially robust.

Conclusion

28. This submission draws the attention of the Parliamentary Joint Committee on Corporations and Financial Services to the following features that make Indigenous people and communities a special interest group vulnerable to the relative absence of banking and financial services in rural, regional and remote areas of Australia:

- Indigenous people are disproportionately represented in these regions with 52 per cent of the Indigenous population in outer regional and remote areas compared to only 13 per cent of the non-Indigenous population (Taylor 2002b).
- Indigenous people are relatively poor and welfare dependent. Preliminary information from the 2001 Census indicates that some regional Indigenous unemployment rates are extremely high and overall individual income levels are much lower for Indigenous than non-Indigenous Australians.
- Indigenous people often reside in small discrete communities—the 2001 ABS Community Housing and Infrastructure Needs Survey identified over 1,200 discrete Indigenous communities in rural and remote areas, with only 15 with populations exceeding 1,000. This presents real critical mass problems for the commercially-viable provision of banking and financial services by the private sector.
- A disproportionate share of the Indigenous people has to travel large distances to access a range of basic social services, including bank branches (Taylor 2002b).
- In many situations, strong Indigenous cultural practices, including a relatively high level of Indigenous languages use and high levels of regional mobility, exacerbate problems of accessing banking and financial services.
- At the same time, relatively low levels of English literacy and numeracy similarly increase problems in accessing such services.
29. A combination of these factors indicate that sustainable Indigenous economic futures in rural, regional and remote areas of Australia an community capacity development will require special consideration. One option that might be considered by the Parliamentary Joint Committee is the provision of such services as a Community Services Obligation by the commercial banking sector. This could be done on a mandatory basis via statutory regulation or on a voluntary basis, with or without government subvention. It is clear though that responsible governance for Indigenous economic development in regional, rural and remote areas of Australia should seriously consider such possibilities.

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References


