

What's in it for Koories?
Barwon Darling Alliance Credit Union
and the delivery of financial and banking
services in north-west New South Wales

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Executive Summary

Indigenous people's ability to manage and budget their income, arrange to pay third parties, purchase food, goods and services, and maintain a level of financial and economic independence and planning, are all reliant on maintaining informed access to appropriate banking and financial services. Issues relating to Indigenous people's access to, and understanding of banking and other financial services are critical to their ability to participate in the economy, thereby improving their general quality of life and in the longer term, assisting in the reduction of welfare dependence.

There have been a number of inquiries and some research undertaken that have examined factors that impact on demand for, and access to, banking and financial services in regional Australia. However these not only often overlook the significant proportion of the population that is Indigenous, they also fail to recognise Indigenous people's contribution to the economic life of regional and remote communities.

Indigenous people represent a steadily increasing proportion of the outback population and economy. Between 1981 and 1996 this Indigenous share increased from 13 per cent to 18 per cent. Over the same period the non-Indigenous population has been in decline. This same trend is reflected in the towns of Brewarrina, Walgett and Bourke within ATSIC's Murdi Paaki region. Between the 1991 and 1996 Censuses the Indigenous population increased as a proportion of the total population from 42 per cent to 55 per cent in Brewarrina, from 38 per cent to 45 per cent in Walgett and from 28 per cent to 31 per cent in Bourke.

Whilst these figures largely reflect a decline in the non-Indigenous population, the Indigenous population is growing at a more rapid rate. It is also important to note that the median age of Indigenous people is 20 years as compared to 34 years for the non-Indigenous population. This younger demographic profile has important implications for the growth of the working age population and the more rapid formation of younger families.

Census data for these towns report Indigenous people's personal income ranging from between 40 to 78 per cent of non-Indigenous personal income. Furthermore, Indigenous people obtain almost 50 per cent of their income from non-employment sources, predominantly welfare payments. Even where Indigenous individuals are employed, they earn less than three-quarters of the income of non-Indigenous workers.

Even more significant are census data on the comparative childhood burden ratios. This ratio measures the burden of care placed on employed members of the community by those under 15 years of age. The average Indigenous childhood burden for the three towns was 2.2 persons per employed person compared to the non-Indigenous burden of 0.5 persons per employed person.

Indigenous people's comparatively low incomes and reliance on welfare payments have contributed to a limited interaction with banking and financial services, focusing primarily on accessing Centrelink benefits or Community Development Employment Projects wages that have been electronically transferred into their accounts. Monies paid into these accounts are invariably exhausted each fortnight or pay period. This cycle has been compounded by the introduction of account keeping fees, steady increases in transaction fees and the imposition of various state government taxes that have a disproportionate impact on low-income earners.

This research confirms that for many Indigenous people, apart from accessing savings accounts and utilising EFTPOS facilities, access to affordable loan finance is currently viewed as either impossible to achieve because of bank eligibility criteria, or simply impossible because of low income levels. Most Indigenous people lack budgeting and financial literacy skills and resultant familiarity with other financial

services. This in turn limits people's understanding of how to access the available options for minimising bank fees, successfully negotiate loan facilities, and manage repayments or access other relevant banking and financial services. The research found that this is contributing to Indigenous organisations moving to provide a range of de facto banking services to their employees. This includes responding to significant demands for small-scale loans, payroll deductions to meet rental payments and the operation of Christmas Club accounts to accumulate savings.

The demand for such loan facilities is further demonstrated in the region-wide take up of Centrelink's advance facility. This provides an interest-free advance of up to \$500 per annum for individual Centrelink benefit recipients, who can apply for it once every 12 months. The advance is repaid via deductions from subsequent welfare payments. This facility is reportedly utilised by up to 90 per cent of Indigenous welfare clients. There is anecdotal evidence of Indigenous people on secure incomes concluding they have little choice other than to seek access to necessary loan finance from private finance companies who charge very high interest rates.

The Federal Government has embarked on an active agenda of welfare reform that includes incentives to assist people to reduce welfare dependence. Local and international evidence confirms that informed access to appropriate banking and financial services forms a crucial first step in enhancing people's ability to accumulate savings and assets. Against this background, the deregulation of Australia's financial system and the rapid adoption of new electronic technology are having significant and disproportionate impacts on the delivery of banking and financial services in the region to all its resident population.

Apart from the removal of cross-subsidisation of bank services and the associated increases in fees, these impacts have resulted in the wholesale closures of many regional branches. Such closures are currently occurring at a rate of five branches per month in regional and rural New South Wales alone (totalling 137 in New South Wales over the last two years). This continuing trend highlights the momentum towards the possible eventual replacement of face-to-face banking by the wholesale adoption of electronic services. As it currently stands, Australia's major banks can close branches on commercial grounds alone and thereby reduce 100 per cent of their local overheads. By authorising alternate local agency arrangements, experience gained elsewhere in rural New South Wales suggests that the banks can still retain both a high value customer base and high total value of their local business. This effectively means that banks still gain the rewards from retail savings, investment and loan business without maintaining a branch structure with locally employed staff that produces regional economic multipliers.

Conversely, these changes also offer opportunities for partnerships, such as that currently proposed between Murdi Paaki Regional Council and other members of the Barwon Darling Alliance, to sponsor the development of alternative banking and financial services. Experience in Australia and internationally demonstrates that through the establishment of credit unions, services can be designed that are responsive to the needs of local people, but also help ensure monies banked and mutual profits made are reinvested in the local region.

However the successful establishment of commercially sustainable credit unions, particularly in regional and remote areas, are not simple and straightforward propositions. They require long-term financial commitments with associated commercial risks, and concerted collaboration and cooperation, not only across differing organisations, but whole communities. They also require an acceptance that the perceived benefits of establishing a locally owned credit union will take time to flow on and will initially centre largely around its ability to:

- raise sufficient capital to provide the foundation for its investment in the region;
- provide loans to raise revenue; and

- raise deposits to support its loan activities.

Similarly, the policy approach of the Federal Government to supporting the establishment of Rural Transactions Centres under its existing program arrangements, will form a key determinant of how quickly a credit union will be able to extend its services into those communities who are the most disadvantaged under current arrangements.

As a potential co-sponsor, along with the other six shire members of the Barwon Darling Alliance, Aboriginal and Torres Strait Islander Commission's Murdi Paaki Regional Council is arguably well placed to leverage both short, but principally, longer-term strategic benefits for its constituents from the establishment of a credit union in its region.

However, if Murdi Paaki chooses to commit financially to the proposal, its involvement could easily draw criticism unless it is able to gain significant support through both a *realistic* understanding and acceptance by its own key stakeholders of the potential benefits of involvement, and the securing of beneficial services to Indigenous customers.

At present there is little general awareness of the Barwon Darling Alliance Credit Union (BDA) proposal amongst individual Indigenous people and their organisations across the region. This lack of awareness is not confined to Indigenous communities, particularly in terms of understanding the commercial realities of establishing a successful credit union and the role individuals, organisations and businesses will need to play for success to be assured. Conversely there has, as yet, been no detailed consideration given to the specific banking and financial service needs of Indigenous people and how these are consistent with, or may vary from, those of the wider population.

Nevertheless, Murdi Paaki Regional Council has a significant opportunity to secure an important foothold in a cooperative institution which, if it proceeds, may play a key role in contributing to the long-term economic life and social cohesion of the region. Dependent on the outcomes from the development of the current business plan for the BDA Credit Union, Murdi Paaki Regional Council needs to develop a strategic negotiating position that critically evaluates its own possible involvement in the venture. Such a position should be, in turn, informed by the concerns and priorities of its own constituents and their level of understanding and potential support for the proposal. Considerations should include identifying possible combinations of the various identified options, their short and longer-term benefits to Indigenous people, in return for provision of subordinated debt.

Dependent on the level of investment these may include:

- nominating the location of full-time and part-time service centres and an administrative centre;
- targeted employment and training policies and positions;
- product range;
- fee free transaction services; and
- financial counselling services.

Similarly, the Regional Council needs to consider how the above benefits might translate into positive incentives that encourage its own constituents and funded organisations to fully utilise Credit Union services in ways that are mutually beneficial.

In the context of the forthcoming 'Walgett' summit with Deputy Prime Minister John Anderson, Murdi Paaki Regional Council in conjunction with the Barwon Darling Alliance, should consider seeking in-principle support from the Deputy Prime Minister for a regional allocation of funds under the Rural Transactions Program. These funds would meet capital and establishment costs in extending BDA

credit union services to remote rural communities, with a view to benefiting all inhabitants of the region.

1. Purpose and conduct of the research

This report forms the second of two separate reports commissioned by the Aboriginal and Torres Strait Islander Commission (ATSIC) State Office in New South Wales. The first requested the Centre for Aboriginal Economic Policy Research to carry out a baseline Indigenous comparative social and economic study for Bourke, Brewarrina and Walgett. This second report considers the proposed involvement of ATSIC Murdi Paaki Regional Council as a joint sponsor of the proposed Barwon Darling Alliance (BDA) Credit Union. The report examines the banking and financial service delivery needs of Indigenous people in the region and other relevant issues that could form the basis for negotiating such an involvement.

Both studies are intended to inform working group discussions and the development of proposals in the lead-up to the proposed 'Walgett Summit' involving Indigenous representatives from the ATSIC Murdi Paaki region and the Deputy Prime Minister John Anderson.

Structure of the report

The research report is set out as follows. First, the issue of Indigenous people's access to banking and financial services is examined against the background of the deregulation of the financial services sector in Australia and the problems and opportunities that deregulation have generated. Second, the potential involvement of the ATSIC Murdi Paaki Regional Council as a joint sponsor of the BDA Credit Union proposal is examined. This involvement is considered consistent with the findings of the initial feasibility study prepared through Credit Care for the Barwon Darling Alliance by Australian Commercial Marketing Pty Ltd, and the subsequent assessment prepared for ATSIC by Deloitte Touche Tohmatsu (Deloitte Touche Tohmatsu 1999). Third, the underlying factors that help determine Indigenous people's interaction with the market economy are examined against the background of a detailed analysis of the comparative socioeconomic status of Indigenous and non-Indigenous people resident in the towns of Bourke, Brewarrina and Walgett.

The analysis then overviews the current delivery of financial and banking services across a representative sample of towns in the region in relation to the research findings about Indigenous people's and their organisations' use and reliance on existing services. Fourth, the report overviews the services available from the Traditional Credit Union and First Nations (which currently forms part of the Advantage Credit Union) and their relevance to the potential services that may be delivered by the BDA Credit Union. Lastly, major findings and recommendations are canvassed.

2. Deregulation of the banking/financial sector

Australia's financial sector is undergoing a period of substantial structural change. In 1997 the Financial System Inquiry (otherwise known as the Wallis Inquiry) stated that the future of the Australian financial sector is 'necessarily uncertain, and there is worldwide debate about the nature, scale and pace of change in the financial system' (Financial System Inquiry 1997: 11).

This change is caused by a number of interrelated factors:

- de-regulation of the financial sector;
- the introduction of new technology;
- changing customer demands; and
- the emergence of new competitive forces within the sector.

One effect of increased competition within the financial sector is that banks are no longer cross-subsidising retail services (Walker, Corby and Murphy 1997). In 1997 the average bank earned approximately 60 per cent of its profit from 4 per cent of its clientele, and this profit was used to cross-subsidise the services provided to the remaining household customers (Takac 1997). One impact of deregulation has been that new competitors have emerged to challenge the most profitable activities of banks, especially in housing loans. This has reduced the bank margins that were traditionally used to cross-subsidise other services. Furthermore, new market rivals have tended to selectively focus on the more profitable banking activities, which creates a capacity to leave banks with a disproportionate share of low-profit or loss-making activities (Reserve Bank 2000).

Increases in account and transactions charges

The removal of cross-subsidisation has led to a steady increase in fees and services for customers. These increased charges are particularly evident in the previously subsidised transaction services (Walker, Corby and Murphy 1997). Most concerns about bank fees centre on the cost to households of running a bank account and making transactions.

Account servicing

Account servicing fees introduced early in the 1990s has increased from zero in 1991 to an average of \$5.00 per month in 2000. At the same time the minimum balance required for account servicing fees to be waived has also steadily increased to between \$500 and \$2000 (Reserve Bank 2000).

Over the counter withdrawals

Over the counter withdrawal transaction fees have increased from \$0.50 in 1991 to \$2.15 in 2000 (Reserve Bank 2000).

ATM withdrawals

Charges for withdrawals from Automatic Teller Machines (ATMs) are higher, increasing from an average of 30 cents for own bank's and other bank's ATM in 1991, to \$0.60 and \$1.40 respectively, in 2000 (Reserve Bank 2000).

Electronic Funds Transfer at Point Of Sale (EFTPOS)

ATM charges have increased more quickly than charges for Electronic Funds Transfer at Point Of Sale (EFTPOS). EFTPOS transactions have increased from an average of \$0.30 in 1991 to \$0.50 in 2000 (Reserve Bank 2000).

Cheque accounts

The average charge for payments by cheque is higher, from \$0.50 in 1991 to \$0.75 in 2000 (Reserve Bank 2000).

Fee free transactions

The average number of free transactions has fallen, with the three major banks with such a facility now permitting eight free transactions per month compared to 11 in 1991. (Alternatively one major bank with no free transactions has no account servicing fees (Reserve Bank 2000)).

Telephone and internet banking

A more recent innovation, telephone banking, costs on average \$0.35 per transaction and \$0.40 to \$0.65 once the free transaction limit is exceeded. Banking fees on the Internet average \$0.30 per transaction (Reserve Bank 2000).

Fee exemptions

Some banks advertise exemptions or concessions from fees for particular groups. For example, each bank exempts customers with a housing loan with their institution; some exempt people younger than 18, tertiary students and those with a loan other than housing. In rural locations in which no ATMs are available, some banks charge for over-the-counter transactions as if they were being conducted electronically; a number of banks have concessions for pensioners or accounts specifically tailored to meet their needs (Australian Consumers Association 2000).

Other charges

Fees paid by households are not confined to charges on transactions and account servicing on deposits. Credit cards (annual fee of \$20-\$30 per year) and other loan accounts also have fees applying to them, and banks charge for other services provided (Australian Consumers Association 2000).

In total, the Australian Reserve Bank estimates that in 1999 the major six banks earned \$1.8 billion in fees from households, about one-third of their total fee income (Reserve Bank 2000).

Financial Institutions Duty (FID) and State Debits Tax

The other financial impost that impacts on account holders is Financial Institutions Duty (FID) which is a transaction tax on the receipt of money by financial institutions that is paid by the consumer every time money is deposited into their account. This tax is 0.06 per cent for each deposit (in all States except Queensland where it's not charged, and South Australia, where the tax is levied at a rate of 0.065 per cent). Deposits also include any interest earned on accounts.

The other relevant impost is the State Debits Tax, which is charged every time a withdrawal is made from a cheque account. This is levied at a rate of \$0.70 for

withdrawals from \$100 to \$499 (\$0.35 in Tasmania) and \$1.50 for those from \$500 to \$4,999 (\$0.75 in Tasmania) (Australian Consumers Association 2000).

The FID tax is to be abolished on July 1 2001, following the introduction of the Goods and Services Tax. The State Debits Tax is scheduled to be abolished in 2005.

Examples of the proportional impact of bank fees and State taxes

Appendix 2 presents simulations of bank fees and State taxes faced for two different households. This provides examples of the disproportionate burden of these charges and taxes on low-income households living in regions with limited banking services. The simulations are two examples only, and do not provide an exhaustive analysis. These simulations are presented for two households comprising two adults and three dependent children. The effects of bank fees and State taxes are then calculated for two different income levels and two different locations which have different access to banking services.

In case 1, bank fees and State charges are estimated for a household with a low income of \$2,000 dollars per month (\$26,000 per year after tax). This income is derived from Community Development Employment Projects (scheme) wages and Centrelink payments. The fees are estimated for this household in two different locations: Town 1 has a bank branch, ATM and EFTPOS facilities; and Town 2 has a bank branch, EFTPOS, but no ATM.

In case 2, the same estimates are produced assuming that the household has an income of \$3,080 dollars per month (\$40,000 per year after tax). The other features differing between the case 1 and case 2 households are that the higher income household (case 2) has a credit card and has sufficient savings to avoid account-servicing fees.

The estimates show that the low-income household living in Town 1, which has access to a wider range of banking facilities, pays approximately \$10.50 per month in bank fees and State taxes. This is around 0.53 per cent of their disposable income. However, if the same household lived in Town 2, which does not have an ATM, they would incur around \$24.50 per month in bank fees and state taxes. This is around 1.22 per cent of their disposable income.

The simulations demonstrate that the absence of an ATM massively increases the level of bank fees incurred. This is because, when there is no ATM, cash withdrawals must be made over the counter and hence incur higher fees (see the above description of bank fees and state taxes). It is important to note that EFTPOS cash withdrawals also incur a high charge with the added difficulty that account balances are not available from EFTPOS machines. The case 2 simulations show that the higher income family is able to reduce their bank fees by avoiding account servicing fees and through credit card use. The combination of lower bank fees and a higher income means that a much smaller proportion of their disposable income is spent on bank charges and state taxes. Nonetheless, the absence of an ATM substantially increases the bank fees they incur.

Technological changes

One of the other impacts of increased competition is the impetus for the introduction of new technology in an effort to reduce costs. Technology within the Australian financial sector is predominantly electronic. Changes in consumer demand for financial services have also provided the impetus for technological innovation. Longer working hours have meant that consumers have demanded alternative

methods of financial services delivery which are flexible and low cost (Walker, Corby and Murphy 1997).

Two of the most visible technological advances within the Australian financial sector in the last decade have been the introduction of EFTPOS and ATMs. These have created large savings for financial institutions because electronic services are considerably cheaper than conventional cash and cheque handling services. For example, Centrelink data gathered by Westbury (1999) indicate that the cost of issuing welfare payments by cheque is conservatively estimated at \$0.75 per cheque, as compared to \$0.02 when issued electronically. These comparative costs help explain the Commonwealth Government's determination to reduce Centrelink payments by cheque to, approximately, only 30,000 of its 6,000,000 benefit recipients each fortnight.

In the four-year period between 1991/92 and 1995/96 there has been a six-fold expansion in the number of ATM machines (Financial System Inquiry 1997: 143). Similarly, figures released by Eftnet, a supplier of EFTPOS, show a 460 per cent increase in machines in the period between 1994 and 1998, the fastest increase of all industrialised countries surveyed. Over the same period, the value of EFTPOS transactions rose from \$1.1 billion per day in 1994 to \$2.8 billion per day in 1999 (see T. Boreham, 'Shoppers use Eftpos to beat banks', *The Australian*, 7 April 2000).

Continued acceleration and innovation in the development and adoption of new technologies by banking institutions, and the resultant pressure on customers to utilise electronic services such as the Internet, telephonic and various on line banking services is a trend that seems set to continue unabated.

Telecommunications infrastructure

These new forms of technology are increasing the types and numbers of outlets, providing the ability to utilise banking services at home and lengthening the hours available for consumers to use banking and similar services (Commonwealth of Australia 1999: 25). However, most of these new forms of technological innovation within the financial sector revolve around access to telecommunications infrastructure and related skills. For regional and remote communities the combined issues of access to, and affordability of, utilising such communications technology is one of the critical factors that determines people's ability to access these services.

Australia's telecommunications infrastructure is undergoing rapid change due to the current rollout of hybrid optical fibre and coaxial cable network. Whilst this has the potential to benefit regional and remote areas there are four major issues that will impact on the availability of new technologies. First, as noted by the Wallis Inquiry (Financial System Inquiry 1997: 99), 'the roll out of a higher capacity optical fibre network is better suited to higher density population areas'. Second, financial system investment in these systems is considered high risk, thereby providing a possible justification for not providing such investments in remote regions (Walker, Corby and Murphy 1997). The Federal Government has acknowledged these problems by committing \$250 million to improve regional communications through the Regional Telecommunications Infrastructure Fund.

Third, access to the internet requires a user to subscribe to an internet service provider, which then links the user to the internet. While in urban areas dialing an internet service provider costs the price of a local call, in many regional and remote areas there are no internet service providers resulting in consumers having to pay for internet access at STD rates (Regional Finances Services Task Force 1997: 1). Finally, the ability to utilise technological innovation within the financial sector also requires a high degree of technical and financial literacy. All these factors combined

will have important implications for the future provision of services to all consumers in regional and remote areas.

3. Current availability of banking and financial services in regional and remote areas

Within the context of a rapidly changing Australian financial sector, there is clear evidence of a decline in the availability of banking and financial services in regional and remote Australia.

In a 1999 report titled 'Regional Banking Services: Money Too Far Away' the House of Representatives Standing Committee on Economics, Finance and Public Administration (HORSCEFPA) made the following comments on changes in the supply of banking and financial services within Australia:

Technological and regulatory developments are transforming the way banking and like services are being delivered in the community. There is no doubt that some of these developments are improving access to banking in many parts of Australia. However the changes have also resulted in many banks having significantly rationalised their branch networks leading to a loss of services for some, especially in smaller regional and remote areas (Commonwealth of Australia 1999: vii).

Bank and agency closures

The HORSCEFPA report argued that as a result of a 'loss of banking or like the services' the resultant 'impact has been particularly serious in regional and remote communities' (Commonwealth of Australia 1999: 7). The HORSCEFPA report noted the difficulty it faced in obtaining reliable statistics for the numbers of agency and branch closures in the last decade (Commonwealth of Australia 1999: 7). In particular, it noted that bank mergers distort available statistics in that they allow banks to acquire networks of branches which increase the number of bank branches thereby giving 'a false impression that only a small number of branches are closed' (Commonwealth of Australia 1999: 8; see also Walker, Corby and Walker 1997).

Figures 1 and 2 show trends, between 1990 and 1998 in the numbers of bank branches and agencies in metropolitan and non-metropolitan areas. The pattern revealed is that of a steady decline in the number of branches in both metropolitan and non-metropolitan areas after 1993. Between 1990 and 1993 there was a dramatic drop in the number of agencies. In metropolitan areas the number of agencies has since increased, approximately regaining their 1990 levels. By contrast in non-metropolitan areas, while there has been some recovery, the levels of agency numbers is still well below the 1990 figures (detailed figures are at Appendix 1).

Writers such as Argent and Rolley (1999) and Ralston and Beal (1997a) argue that the official 'metropolitan/non-metropolitan' distinction used in bank statistics disguises the real trend of rural and remote bank closure, overstating actual rural branch numbers by between 300 and 350 (Argent and Rolley 1999). Further research by Argent and Rolley (1999) indicates that, within New South Wales rural and remote regions between 1981 and 1998, branches declined by 23 and 30 per cent respectively. These statistics detailing the overall numbers of branches located in rural or non-metropolitan areas do not show the acute problems faced by rural and remote communities when they are left without access to a financial institution.

In their submission to the HORSCEFPA Inquiry the National Farmers' Federation (1999) estimated that approximately 600 regional and remote mainstream communities did not have access to a financial institution. This is further confirmed by data released in the Reserve Bank Bulletin in December 1999 that Australian banks have closed 763 branches in the last two years, with 311 of these being closed in regional and rural areas. Over the same period the major banks (ANZ, Colonial

State, Commonwealth, NAB and Westpac) have closed 137 branches in regional and rural New South Wales, an average of five closures per month.

As it currently stands, Australia's major banks can close branches on commercial grounds alone, and thereby reduce 100 per cent of their local overheads. Through authorising alternate local agency arrangements, experience suggests that the banks can still retain both a high value customer base and high total value of their local business. Research undertaken in a region in rural New South Wales has estimated that, despite a major bank closing the local branch, the bank is still able to maintain 50 per cent of its customer accounts, and over 65 per cent of the value of savings investment and loan business in the region. This effectively means that banks can still gain the rewards from retail savings, investment and loan business without maintaining a branch structure with locally employed staff in the region, and the resultant multiplier impacts for the local economy (Australian Commercial Marketing Pty Ltd 2000).

Growth in giroPOST services

giroPOST offers customers of participating financial institutions access to PIN-authorized banking services including personal deposits, withdrawals and payment for credit card bills. The trend in declining rural and remote financial and banking services is partly offset by the steady increase (see Figure 1) in giroPOST services from 2,557 Australia Post agencies Australia-wide in 1996 to 2,720 in 1998 (Commonwealth of Australia 1999: 8). However, the increasing number of giroPOST services within Australia also raises important questions about the extent to which the services provided by agencies can substitute for those provided by full scale banks branches (Walker, Corby and Murphy 1997).

Case studies demonstrate the dramatic effect of closures of banks on regional economies. Impacts of branch closures on regional communities include difficulties in cash handling, a rise in bad debts as businesses are forced to take on pseudo banking roles, a decline in consumer spending and a decline in business and housing investment within the region (Ralston and Beal 1997b).

Figure 1. Number and location of bank branches and agencies, Australia, 1990-98



Sources Reserve Bank of Australia Bulletin (1999).

Figure 2. Number and location of bank outlets (branches and outlets), Australia, 1990-98



Sources: Walker, Corby and Murphy (1997); Reserve Bank of Australia Bulletin (1999).

Establishment of the Rural Transactions Centres (RTC) Program

In 1998 the Federal Government announced it would provide up to \$70 million over a five-year period to establish up to 500 Rural Transaction Centres (RTCs) in rural areas from the proceeds of the partial sale of Telstra. This decision was in direct response to the disproportionate, negative impacts of bank branch closures in regional and rural areas. RTCs are intended to provide services such as personal banking, elements of business banking, postal services, Medicare claims, telephone and fax facilities, Job Network, Internet and Centrelink services. RTCs are not prescriptive. Individual communities can bid for any combination of services. It was envisaged that local communities would run these centres themselves or as a small business in the community.

The program has two main components:

- the first comprises monies to assist eligible communities to develop a business plan in order to assess the viability of a proposed RTC; and
- the second program component provides monies to fund capital establishment and assistance for running costs for a defined period, after which the RTC will need to be self-sustaining.

Applications are assessed by a nine-person Advisory Panel appointed by the Federal Government. As at April 2000, ten operational RTCs had been established and a large number of applications for monies to prepare business plans had been approved (including six Indigenous communities).

The program is primarily submission driven and focuses on responding to applications from *individual* communities. This current policy approach has important implications for the BDA Credit Union proposal. The Central Darling (\$10,000) and Walgett (\$12,635) shires have successfully gained funding under the business plan component of the program to examine the feasibility of establishing RTCs in the towns of Wilcannia and Collarenebri respectively. The BDA Credit Union could provide a range of services to disadvantaged communities in a timely fashion if monies were available under the RTC program to develop and implement a *regionally* linked network of transaction centres which could offer BDA Credit Union services under license.

4. Emergence of proposed Barwon Darling Alliance Credit Union

The Barwon Darling Alliance is a coalition of Shire Councils in the North Western region of New South Wales (Bourke, Brewarrina, Central Darling, Coonamble, Moree Plains and Walgett) and the ATSIC Murdii Paaki Regional Council. The Alliance was established to tackle common regional concerns, particularly in terms of local economic, employment and quality of life issues (English 1999).

The population of the six shires represents approximately 38,000 people of which Aboriginal and Torres Strait Islander people represent 21 per cent (or one in five) of the total population. One of the initiatives the Alliance identified through its 1998 Strategic Plan (Gerritsen and Whyard 1998) was the establishment of a credit union to serve the financial service needs of local residents, businesses and rural producers.

BDA Credit Union proposal

The proposal outlined in the initial feasibility study prepared by Australian Commercial Marketing Pty Ltd (ACM) is for the establishment of a stand-alone credit union, with up to six regional branches and six service centres being developed over the first seven years of its operation (ACM 1999). The proposal seeks to attract 1,893 members after the first year and 7,479 members after year five and 10,000 after year ten.

The \$2,000,000 capital for the Credit Union will be offered voluntarily by up to seven individual councils and other community groups in the form of a ten-year, non-withdrawable subordinated debt program. The Credit Union is to be capitalised via subordinated debt to the level of \$2 million financed by up to seven principal groups. These include ATSIC Murdi Paaki Regional Council (or an approved financial structure to be determined) and six local councils. The funding level from each organisation was proposed at between \$250,000 and \$350,000 depending on their level of sponsorship. The subordinated loan is repayable from years six to eight.

What is subordinated debt?

Subordinated debt is essentially an unsecured loan for a defined period that is subordinated to all other creditors, apart from shareholders. A subordinated debt does not make sense in commercial terms alone, and is usually founded upon a strategic imperative (ACM 2000).

In the event that the Credit Union is forced to wind up its operations the following distribution sequentially applies:

- all depositors are paid out fully (including unpaid interest); then
- secured creditors; then
- unsecured creditors; then
- subordinated debt holders; then
- any remaining balance of capital (retained earnings) is distributed to members/shareholders (ACM 2000).

ACM argues that the key to securing a good, effective, low risk and commercially effective subordinated arrangement is to:

- properly assess (and where possible quantify) the strategic opportunity afforded;

- assess the true risk involved. What is the probability, likelihood and potential exposure of the proposed subordinated debt to a wind up and a call to 'make good' shortfalls to higher ranking creditors? What are other external positive and negative factors that might come into play and impact on that risk/exposure?;
- determine the legal obligations (actual and inferred) in relation to a subordinated debt arrangement decision;
- identify and secure options to minimise the risk through the relationship with the borrowing organisation (e.g. Board representation, account disclosures, release mechanisms); and
- negotiate additional commitments that can be linked to the arrangement and add to the strategic and commercial value of the proposal.

Murdi Paaki Regional Council involvement in the BDA Credit Union

The initial feasibility study prepared through Credit Care by ACM for the BDA set out a proposal to establish a regional Credit Union with Murdi Paaki Regional Council holding a one-seventh interest.

Benefits of participation

Subject to the level of financial support provided via the provision of subordinated debt, the ACM feasibility study identified that sponsors (including Murdi Paaki Regional Council) would be entitled to benefits including:

- a full-time branch in their preferred locations (minimum cost \$250,000);
- part-time service centre in other preferred locations (minimum cost \$100,000);
- a return on the subordinated debt provided up to 1.5 times the official 90-day bank bill rate, with returns subject to profitability and maintenance of minimum capital/asset ratios of 8 per cent;
- fee-free transaction services in relation to their 'banking' requirements (subject to the sponsor undertaking their own banking on-line through their own offices); and
- profit share bonus on additional funds invested (essentially, the prevailing and applicable Credit Union fixed term deposit rate plus profit share bonus).

A number of other issues were also canvassed.

Board control

The ACM feasibility study suggested that, because credit unions are democratically controlled institutions, a prescribed Board structure can never be guaranteed. It recommended that the objective be an initial Board of seven persons with one representative from each of the proposed sponsor groups. ACM also floated a more 'radical' proposal involving the establishment of democratically elected Regional Boards, which in turn elect one member to represent the region on the Credit Union Board.

Organisational structure

The ACM study assumed a standard Credit Union organisational structure including:

- General Manager;
- Financial Controller/Accountant;
- Lending Manager;

- Administration Assistants (two);
- Regional Branch—manager (one); service officer (one full-time equivalent);
- Services Centre—service officer (one full-time equivalent).

Arms length dealings

The ACM study concluded that commercial rates would be established for the 'rent' of premises and salary costs, providing sponsors with the option of either providing such resources internally (and therefore benefiting from rent/salary revenue) or independently.

Product range

The ACM study identified a standard retail and small business product range including:

- current Account—retail and small business;
- combined Visa/ATM/EFTPOS card linked to current account;
- savings/cash management account;
- fixed term investments;
- overdraft—retail and small business;
- unsecured personal and business loans;
- mortgage secured residential, small acreage and business loans; and
- collateralised personal and business loans.

Pricing

The ACM study of pricing of the above services assumed that the Credit Union would be able to match or provide a slightly more competitive interest rates deal. However it was also envisaged that over the counter transaction fees would be charged, primarily to finance the expansion of services to smaller or remote communities on reasonable and equitable terms.

Promotion

Given the geographic spread of the Credit Union's potential market, the feasibility study recommended that each sponsor be allocated a portion of the overall promotional budget to undertake direct promotion with membership being progressively expanded in the following order of priority:

- council employees—payroll deduction;
- local business—Regional Branch location;
- residents ratepayers—Regional Branch location; and
- business/residents—other locations.

It is interesting to note that Indigenous people were not identified as specific target group of this promotion.

Distribution and servicing

The ACM study made the following assumptions in relation to distribution and servicing:

- an initial six regional branches providing full counter service;
- the addition of one service centre per annum from year two;

- on-line data processing at branches and local sponsor offices;
- data processing facilities provided by an external bureau; and
- ATM and EFTPOS facilities to be progressively released.

Prudential control and risk

The feasibility study recognised the financial integrity of the Credit Union as a critical issue: while successful establishment and operation could bring significant social and economic benefits to the region, conversely, its failure would have disproportionate adverse impacts.

The following measures were proposed to minimise risk:

- that a minimum 8 per cent capital/assets ratio is maintained at all times;
- external audit and management support resources be secured;
- highly conservative risk management policies and systems be developed;
- professional management be secured (either internally or externally); and
- that release mechanisms be established for winding up the Credit Union.

Deloitte Touche Tohmatsu assessment

In May 1999 Deloitte Touche Tohmatsu, business agents for ATSIC, provided an assessment report on the initial ACM feasibility study (Deloitte Touche Tohmatsu 1999). Deloitte Touche Tohmatsu identified a number of banking and financial service delivery issues relevant to Indigenous people in the region, including:

- lack of culturally appropriate financial services for Indigenous communities;
- disillusionment with existing services;
- need to access credit at sound rates;
- lack of services in remote areas;
- need for Indigenous people to be more financially literate;
- need for training of Indigenous people in the financial services sector;
- need to develop a savings and timely expenditure culture; and
- interest in an Indigenous credit union, which could be expanded across State boundaries.

Deloitte Touche Tohmatsu questioned a number of the assumptions with respect to current and projected lending and savings patterns identified in the ACM study. It argued that these assumptions appeared to reflect patterns that apply in more urban and economically advantaged areas, rather than those conditions that prevail in rural and remote Australia. They were unwilling to comment on the overall financial viability of the plan at that early stage.

They also concluded that, on the basis of the current proposal, the proposed participation level would not necessarily generate expected outcomes for Indigenous communities, given that outcomes may well be diluted by the other sponsors who may have different agendas for their constituents.

Subsequent developments

In May 1999 Credit Care conducted a community survey of individual householders across the BDA region to establish the level of support for the proposal to establish a regional credit union. Although 77 per cent of survey respondents were reported to be in favour of the proposal, it has not been possible to establish how many

Indigenous people and organisations responded to the survey, or how representative it was. Nevertheless, the survey results identified a strong demand for services from smaller, more remote, communities in the region. These communities currently have limited or no access to banking services. This has led to consideration being given to the establishment of services in these areas earlier than was anticipated and the linking of the proposed Credit Union's business plan to securing funding via the Commonwealth's RTC Program.

These considerations are currently being taken into account by ACM in the development of a business plan for presentation to the BDA in late June 2000.

Shareholding issues

As it currently stands, the ATSIIC Act precludes the Murdi Paaki Regional Council being a shareholder in the BDA in its own right. If the proposal is to proceed, the ATSIIC Regional Manager in Bourke has previously identified four potential options. These include:

- a body is incorporated with the specific intention of holding such a shareholding subject to detailed special terms and conditions;
- an existing incorporated body agrees to hold the shareholding under special terms and conditions;
- the ATSIIC Act is amended to enable the Murdi Paaki Regional Council to hold a shareholding (highly unlikely); or
- the Commission itself holds the shareholding until such time as a future Regional Council can do so.

Murdi Paaki therefore needs to seek expert advice on what form of legal entity could be established through which any proposed subordinated debt might be channelled.

5. Underlying factors determining Indigenous peoples' interaction with the cash economy in the Murdi Paaki Region

In considering the factors that impact on demand for, and access to, banking and financial services in regional and remote Australia, the significant proportion of the population that is Indigenous is often overlooked, as is their role in the economic life of rural communities. This was reflected in the failure of the terms of reference for the HORSCEFPA Inquiry to contain a specific reference to the impact of the withdrawal of banking services on Indigenous peoples. It is also reflected in the omission to appoint any Indigenous people to the nine-person Federal Government Advisory Panel that advises on applications for assistance under the RTC program.

Work by Taylor (2000) indicates that Indigenous people represent a steadily growing proportion of the outback population and economy. This statistical analysis confirms that between 1981 and 1996 the Indigenous share of the outback population increased from 12.7 per cent to 17.8 per cent, an overall increase of 23 per cent. The non-Indigenous population has concurrently been in decline. This same trend is reflected in the towns of Brewarrina, Walgett and Bourke within the Murdi Paaki region. Between the 1991 and 1996 Censuses the Indigenous population increased as a proportion of the total population from 42 per cent to 55 per cent in Brewarrina, from 38 per cent to 45 per cent in Walgett and from 28 per cent to 31 per cent in Bourke (Ross and Taylor 2000).

Whilst these figures reflect a decline in the non-Indigenous population, the Indigenous population is growing at a more rapid rate. It is also important to note that the median age of the Indigenous population is 20 years, compared to 34 years for the non-Indigenous population. This younger demographic profile has important implications for the future growth of the working-age population and more rapid formation of younger families.

Census data for the same towns confirm Indigenous people's personal incomes are, on average, only 50 per cent of the equivalent incomes for non-Indigenous people. Furthermore, for almost 50 per cent of their income Indigenous people rely on non-employment sources comprising predominantly welfare payments, compared to 12 to 17 per cent for the non-Indigenous population (Ross and Taylor 2000). Even where Indigenous people are employed, their income is less than three-quarters of the income of non-Indigenous workers (\$20,138 per annum compared to \$27,698 per annum). The CDEP scheme is the major employer in all three towns. In Walgett, for example, nearly 92 per cent of Indigenous employment was through the CDEP scheme. In Brewarrina the CDEP scheme accounted for nearly half of all Indigenous people in employment and in Bourke, nearly one in three (31 per cent). Thus, a reduction in welfare dependence for Indigenous people in the region does not just require more jobs, it also requires employment in higher paid occupations.

Even more significant are 1996 Census data on the comparative childhood dependency burden ratios. This ratio measures the burden of care placed on employed members of the community by those under 15 years of age. The average Indigenous childhood dependency burden for the three towns was 2.2 persons compared to the non-Indigenous burden of 0.5 per person (Ross and Taylor 2000).

Indigenous people's low income and assets status is further confirmed by examining comparative 1996 Census data on rates of housing ownership and mortgage take up. Almost 25 per cent of Indigenous households were in private ownership (15% owned outright and 9% under mortgage). In contrast 61 per cent of non-Indigenous households were in private ownership (42% owned outright and 19% under mortgage). These figures confirm that the major comparative difference was in

the number of dwellings owned outright. They also reflect the differentials in age and income.

6. Current situation in the delivery of banking and financial services at Bourke, Wilcannia, Brewarrina, Walgett and Goodooga

Field research and consultation conducted for this report focused on five separate communities throughout the Murdi Paaki region. These were selected in order to gain a representative mix of the current variations in the provision of banking and financial services across the region.

Summary of services available

Current banking and financial services included the following range:

- Bourke—Commonwealth Bank over the counter and ATM services, National Bank Branch, Colonial and Westpac agencies and Australia Post giroPOST services;
- Walgett—National Bank Branch over the counter services, Westpac agency, Colonial Bank agency and Australia Post giroPOST services;
- Brewarrina—Commonwealth Bank over the counter services with no ATM;
- Wilcannia—Westpac agency operated through local shire council;
- Goodooga—giroPOST services through the post office agency.
- In all these townships, banking services are supplemented largely via EFTPOS accessed through a variety of local outlets including clubs, newsagents, supermarkets and hotels.

Service delivery issues

The geographic spread, mix and availability of banking and financial services across the region highlight a number of service delivery issues regarding demand for, access to, and costs of services.

Adapting to changes in services and technology

Indigenous people, along with other people resident in the region, have experienced rapid changes in the delivery of banking services and the associated adoption of new technologies over the past several years. Changes in service delivery most frequently cited by people included the replacement of Centrelink cheque payments by electronic transfer payments to individual accounts, reduction in bank branch and agency services, and the rapid introduction of new technology via electronic key card and EFTPOS services, and the significant increases in charges. Notwithstanding these changes it was consistently asserted by persons and organisations interviewed that, for many Indigenous people, bank accounts were primarily a means to cash out their wage or welfare entitlements and not a service to generate savings.

The ability of Indigenous people to adapt to the technological changes that are occurring in the delivery of banking and financial services in the region has varied according to factors such as age, education and employment status. For example, some age pensioners operate de facto passbook accounts, whereby electronic key cards are kept in safe custody at the bank for individual customers and people are able to progressively draw down monies over a fortnightly period. Despite the fact that this practice contravenes stated bank policy, its limited retention reflects

recognition by a sympathetic manager that some individuals have been unable to adapt to the normal requirements of operating an electronic account.

In some locations, such as Goodooga, where no branch or ATM facilities exist and people are reliant on giroPOST through the local post office, the only way people can establish their current account balance is by telephone. Many Indigenous people have neither ready access to a telephone or familiarity with the requirements involved in accessing automated telephone banking. They are therefore forced to effectively guess their account balance and often make several attempts to withdraw monies via the giroPOST facility until they reach an amount that is small enough to be authorised.

People consistently raised the issue of increases in account keeping and transaction fees charged by the banks. In particular, they cited difficulties in understanding how the bank transaction and account fee systems operated. Many described examples of reductions in anticipated bank balances due to what people described as the imposition of unexplained bank fees on their accounts. This reflected not only a lack of awareness of the types and scales of fees and charges that apply, but also of the options available to minimise these types of charges.

This lack of awareness reflects the findings of other research: even where limited banking services are available, the impact of significant increases in transaction fees by banks and third party EFTPOS providers have had a regressive impact on people with low incomes. This lack of access to banking services exacerbates the existing savings deficit in Indigenous communities, which in turn means that individuals have a more difficult time acquiring assets. Combined with the structural impacts of welfare dependence and low employment income, without the ability to save, individuals are denied a range of economic opportunities, and in particular the opportunity to break out of the poverty trap (Stegman 1999; Westbury 1999).

In this context, recent experience gained in the United States of America is instructive. The Federal and State governments, in collaboration with banks and private foundations, have adopted policies aimed at encouraging people to reduce welfare dependence. This includes mechanisms for the more effective use of banking and financial services, and incentives such as encouraging individuals to open 'personal development accounts'. The savings from these accounts must be used towards improving educational and job skills or even purchasing a vehicle in order to be able to travel to employment, and attract up to an additional \$3.00 for every \$1.00 saved by the individual concerned.

It is also interesting to note that when the United States Treasury moved to transfer welfare recipients from cheque to electronic transfers in 1999, considerable monies were allocated to community based organisations to assist people to both manage the transition and effectively access and operate bank accounts (Stegman 1999).

Lack of ATMs and reliance on EFTPOS

The lack of ATM facilities in many locations means that outside normal branch banking hours, or where no branches exist, people reported a high level of reliance on EFTPOS services. This has varying impacts. For example, in Brewarrina accessing cash through EFTPOS through the local newsagent draws a \$5.00 fee for each transaction over \$100 compared to a \$2.00 charge at the local Returned Services League (RSL) club. Alternately, if people seek to gain access to cash through their EFTPOS account at the Riteway supermarket (for free) they must first purchase at least \$10.00 worth of groceries. Where a bank branch is located in the community but there is no ATM (as in Brewarrina), the bank customer has no choice other than

to incur a higher fee for each transaction processed, as counter transaction charges are higher than ATM transaction charges.

Employment and educational status were also relevant considerations. Indigenous people interviewed during the preparation of this report who hold educational qualifications and secure employment positions, have more readily adapted to changes in technology. Their concerns centred around the level of bank transactions charges and access to loan finance. Similarly, a number of Indigenous organisations have sought to assist their employees adjust to the changes by offering de facto banking services.

Provision of de facto banking services by Indigenous organisations

A number of Indigenous organisations operating under the CDEP scheme have adopted procedures that deliver de facto banking and financial services to their employees. These range from the provision of limited loans that are repaid through weekly wage reductions, through to periodic reductions to meet external loan commitments, rental and public utilities payments, and contributions to Christmas Club Accounts sponsored by the Indigenous organisation itself. These procedures are common in a number of major Indigenous organisations intent on responding to the needs of their employees.

Rental deductions

The adoption of policies by Indigenous organisations to make periodic deductions from employees wages to meet rental payments reflect the historical difficulties people have faced in maintaining rental repayments without access to a deduction facility. People were very supportive of the need for this facility not just for rental repayments, but other deductions as well: it meant that their ultimate take home pay had already accounted for such payments, thus making it easier to budget overall. Furthermore, for Indigenous housing organisations the regular and reliable receipt of rental payments determines the availability of funds to carry out repairs and maintenance, and is a factor that contributes to the level of funding provided by funding providers such as ATSIC.

There are many Indigenous people who are not employees of Indigenous organisations or are unable to utilise similar facilities via their public or private sector employer. These people either rely on the Centrepay system operated by Centrelink, which deducts and forwards on periodic payments at a cost of \$0.75 per transaction, or make arrangements through their bank to provide a similar service.

However, this latter system can have serious drawbacks. The Commonwealth Bank has recently adopted a policy which imposes an automatic \$10.00 fee when individual accounts are overdrawn. For example, a number of Centrelink recipients in Bourke had made arrangements to have rent deductions taken from their Commonwealth savings accounts and automatically transferred to Murdi Paaki Regional Housing Corporation, immediately prior to the receipt of their fortnightly entitlement. As a result, their accounts were technically overdrawn overnight and were suddenly, without warning, incurring the \$10.00 fee.

Access to loan finance

Despite having long-term employment histories as a result of employment either under CDEP or long-established Indigenous organisations such as medical services (over ten years in a number of instances) individuals reported significant problems in their attempts to access loan finance from local banks. A number of people asserted

that banks invariably encouraged people to take out credit cards rather than small loans, or pointed them in the direction of private finance companies.

People objected to these practices on two counts. First, many people stated they are uncomfortable with the prospect of gaining access to a credit card facility, because of the potential problems of managing repayments whilst on a relatively low income and the high interest charges that accrue in using such a facility. They stated that they were much more comfortable with loan finance that involves provision of a set amount, which can be repaid via direct payroll deductions.

The demand for such loan facilities is further demonstrated in the regional take up of Centrelink's advance facility. This provides an interest free advance of up to \$500 per annum for individual Centrelink benefit recipients that is repaid via deductions from subsequent payments. This facility is reportedly utilised by up to 90 per cent of Indigenous welfare recipients. People stated that they used these advances to meet ad hoc costs such as car registration and insurance, emergency travel for funerals or medical reasons, clothes and footwear, for holidays or bailing family members from goal.

With respect to accessing loan finance through private finance providers, people stated that banks invariably cited a lack of an established credit rating as the reason for their non-eligibility for loan finance. People argued this left them with no resort other than to seek finance from other private providers whose interest rate charges are significantly higher than the banks.

This experience is not dissimilar to previous research carried out by ATSIC. In its submission to the House of Representatives Standing Committee Inquiry into Indigenous Business (ATSIC 1998), ATSIC argued that credit access problems are compounded for Indigenous entrepreneurs, who often have limited credit records and no collateral. In addition to language barriers, it asserted that most Indigenous communities lack savings; that Commonwealth and State legislation prohibits the use of communally-owned Indigenous land as collateral, and that Indigenous people have few employment opportunities in rural areas from which to accumulate equity.

ATSIC also argues that another reason for the lack of access to credit is that financial institutions have limited information on Indigenous business and borrowers, and are unaccustomed to dealing with them. This creates serious problems for financial institutions when determining the credit-worthiness of Indigenous borrowers. Thus, existing financial institutions find it unprofitable to bear the risks of lending to Indigenous people (ATSIC 1998: 22-3).

Face-to-face banking services

A common issue raised was the importance Indigenous people attached to being able to access their banking services on a face-to-face basis. In Brewarrina in particular, people raised the added advantage that two Indigenous people were employed as bank tellers in the local three-person branch of the Commonwealth Bank. They argued this resulted in people being more comfortable and confident in accessing services because they were able to deal with people who are familiar with, and understood, their individual situations.

A number of people also raised the issue of their discomfort in being forced to access banking services in banking agencies located in stores or newsagents. They asserted that these facilities invariably operated in an open area where privacy was not assured and this could prove embarrassing, especially when people are not sure of their account balance.

Business banking services

There were a number of issues raised by Indigenous organisations in the context of their interactions with the banks and the perceived adequacy of existing bank and financial services. It is important to note the importance of Indigenous organisations, not only as employers, but also through their participation in the local regional economies as purchasers and suppliers of goods and services. For example, the major CDEP organisations manage a combined annual budget of over \$5.5 million. This does not include other significant organisations such as, for example, Aboriginal medical services and local land councils.

The principal issues identified by these organisations included:

- the difficulties faced by their employees in accessing appropriate financial and banking services that effectively respond to their daily needs and take into account the comparatively low income status of Indigenous people;
- effective access to banking and financial services was widely viewed as an essential service, and that banks played a critical role in determining people's ability to effectively manage and budget their household incomes;
- the de facto assumption of banking and financial services roles and responsibilities by the organisations themselves in the absence of effective services by existing institutions;
- the significant use of organisation sponsored services by their employees, particularly in respect to periodic deductions, savings accounts (e.g. Christmas clubs). However these organisations faced problems in responding to the high demand for small-scale loan facilities. Because of funding conditions prohibiting 'loans,' these could generally only take the form of an advance against wages, and required clear justification;
- despite an ongoing and assured funding cycle and a secure capital base, some organisations argued that they experienced problems in raising short and long term loan finance from existing banks to pursue expanded activities; and
- the withdrawal of services in some areas had created problems for the timely processing of payroll entitlements to employees and delays in cheque clearances.

7. Traditional Credit Union (TCU) and First Nations Credit Union experience in servicing banking and financial needs of Indigenous peoples

Traditional Credit Union

The Traditional Credit Union Limited (TCU) has been in operation for five years. Currently the TCU operates seven branches (currently Galiwinku, Maningrida, Milingimbi, Ramingining, Wadeye and Barunga) and has 5,300 members. TCU's membership is approximately 95 per cent Indigenous with most of its members residing in remote Indigenous communities in the Top End of the Northern Territory. The TCU is incorporated as a public company under Commonwealth Corporations Law. It is an authorised Deposit Taking Institution under the Banking Act of the Commonwealth, authorised to operate as a Credit Union (TCU 2000).

Membership

The TCU is owned by its members. The joining fee for an adult is \$10.00 comprising a \$2.00 redeemable preference share (or a \$4.00 share for a joint account) plus a \$8.00 operating fee. Shares are refundable if membership ceases. This share gives a member, or members, voting rights including the right to elect a Board. The current Board contains a mix of Directors drawn from the Indigenous community plus non-Indigenous people with appropriate legal, financial and training skills.

Reasons for establishment

The decision to establish the TCU originally arose out of the lack of banking and credit services to remote Indigenous communities. Particular problems were occurring when people wished to cash Centrelink or wages cheques each fortnight with no savings facility, making budgeting difficult and leaving many families in a 'feast or famine' cycle (Westbury 1999).

Initial capital for the establishment of TCU included \$147,000 (having incurred \$150,000 development costs) provided by the Arnhem Land Progress Association, plus a subordinate debt of \$200,000, a grant of \$400,000 from ATSIC, and \$28,000 from the Northern Territory Government for client education.

Services provided by TCU

The TCU provides a wide range of services to its members including:

- savings accounts;
- budget accounts allowing regular amounts to be saved;
- periodic payments (e.g. to housing bodies, accounts of relatives with TCU or other financial institutions);
- direct credits to another account;
- cheque payments to third parties;
- Christmas Club accounts; and
- loans.

Members can arrange to have payments directly credited to their accounts for a fee of \$10.00 for any deposit over \$101.00. Withdrawal fees are \$1.00 per over the

counter withdrawal. There is, however, no fee for periodic payments, of which over 3,000 are made per fortnight. This reflects a conscious policy of the TCU to facilitate not only regular savings, but also the payment of accounts such as rent, electricity, and loans. It also enables the ready transfer of monies to accounts of other persons (e.g. student in town).

Affordable loans

The TCU has to date lent \$747,000 to members, mainly for the purchase of furniture, white goods and furniture. A significant proportion of loan recipients are women. Currently a maximum loan of \$5,000 is allowed to members, repayable over five years. A member must save a specified amount on a regular basis over a three-month period to be eligible for a loan. This loan program has worked well to date, with only one loan written off. Arrears are subject to a personal one-on-one follow up by TCU staff or directors. Another pointer to the success of the loan scheme is the fact that 70 per cent of loans are being re-paid in advance of the stipulated timeframe. This enables people to become eligible to gain a future loan.

The net evidence is these loans have made a significant contribution to improving people's standard of living (e.g. refrigerators to store food, washing machines to wash clothes, and furniture and fittings for housing) with repayments reflecting people's level of income and capacity to repay. Apart from providing an essential service to people dependent on Centrelink and CDEP income, TCU also has membership from a number of Indigenous organisations and community stores who use its services to process payrolls.

Face-to-face services

The TCU operates six branches, five of which are supervised by an Indigenous staff member. Of its 32 staff, 25 are Indigenous. TCU branches in remote communities are the only financial institution providing over the counter banking services. Staff at community branches also speak the language of community members, many of whom have English as a second, third or fourth language.

A major advantage of the TCU is that members can readily obtain account balances (unlike with EFTPOS), easily make periodic payments and save on a regular basis through a service provided by a local branch staffed by people they know. Many members come into branches without cards and on the basis of recognition by TCU staff can still obtain money from their accounts. Members who have established a savings pattern also have access to affordable personal loans. A number of Indigenous people resident in or travelling to Darwin are members because they like dealing with Indigenous staff and an organisation devoted to meeting their needs.

Future TCU directions and growth

The TCU is a high cost operation by its nature, in part because of the difficulties in providing financial services to some of the least accessible communities in Australia and by its focus on training staff in the communities. It has recently gained funding from ATSIC for EFTPOS conversion and establishment of a new branch, which will significantly improve its competitive position.

The Board has decided to concentrate on maintaining steady growth with a focus on encouraging education amongst members of existing branches, and ensuring the establishment of new branches is subject to extensive consultation with the community concerned and demonstrable support for TCU policies and operations.

Apart from initial grants from ATSIC and the Arnhem Land Progress Association, growth has largely been financed from income earned by the TCU. This has kept deposit fees high, but these should be reduced with the introduction of EFTPOS by assisting TCU to become cheaper and more competitive and to establish agencies, rather than branches, in small communities (TCU 2000).

First Nations Credit Union

First Nations Credit Union commenced operating in May 1999 with the opening of its first branch in Shepparton, Victoria. It is not a credit union in its own right, but currently operates as a division of the Advantage Credit Union (ACU) which is the sixth largest credit union nationally. 'Incubating' within the ACU was selected as a safe and secure way to create a new credit union bounded by the regulations governing financial institutions (First Nations (Advantage) Credit Union 1999).

ATSIC approved a grant of over \$800,000 over two years towards meeting capital and operational costs. First Nation's membership is open to all Australians and is accessed by purchase of five \$2.00 shares. First Nations is governed by an eight member Indigenous sub-committee of the Advantage Board. The sub-committee members are being trained to act as the first Directors of the proposed independent First Nations Credit Union. First Nations Directors must be of Aboriginal or Torres Strait Islander descent.

Branches

Apart from its branch in Shepparton, First Nations is not pursuing a branching structure, instead utilising the giroPOST network to provide for membership recruitment (as well as deposits and withdrawals) plus ATMs, EFTPOS, Visa, personal cheques, telephone and Internet banking.

Services

First Nations provide a full range of financial products including:

- transaction accounts;
- personal, car and home loans;
- personal overdrafts;
- Visa and ATM cards;
- advice on budgeting, saving, borrowing and investing; and
- a special 'clan' savings account for extended family groups and a tailored credit policy.

Access to First Nations is gained through:

- a 24-hour telephone and internet banking call centre;
- ATMs and EFTPOS; and
- 2,700 GIRO Post Offices.

Account holders are provided with 12 free transactions per month if a minimum balance is maintained. Otherwise a \$1.50 per transaction fee is applied. As at June 2000, First Nations had 1,000 members Australia-wide, of whom approximately 80 per cent are Indigenous. Deposits exceed \$7 million, and it has over 140 loans and overdrafts of totalling \$2.5 million. It has five Indigenous staff and a General Manager seconded from ACU for two years. The ACU itself employs three Indigenous staff.

8. Lessons relevant to BDA Credit Union proposal

The TCU and First Nations represent two significant variations in models aimed at addressing the banking and financial services needs of Indigenous peoples.

The TCU model arose from the combined impacts of the absence and/or withdrawal of face-to-face banking and financial services and the reliance on fortnightly Centrelink cheque payments in remote Indigenous communities. Established as a credit union in its own right, the TCU is currently seeking to expand its services via the establishment of branches and agencies located within Indigenous communities and townships with significant Indigenous populations.

First Nations was established in response to a perceived need for an Indigenous credit union with national access to assist its members to take better control of their finances and economic futures. In contrast to the TCU, First Nations is being incubated within an existing major credit union in order to draw upon its existing established infrastructure and product range, with a view to becoming established as a stand-alone credit union Australia wide over time. First Nations has also made a conscious decision to expand its core business by supplying services through other agency or third party providers such as giroPOST, rather than establishing a network of branches or agencies. It also encourages members to reduce fees by maintaining a minimum account balance and using electronic products such as Visa Cards. It has introduced innovative loan products targeted to the needs Indigenous people.

The TCU places a strong emphasis on employing and training Indigenous staff, and providing financial services geared towards meeting the specific needs of its members. For example, loan repayment periods are tailored to the capacity of recipients to repay—for small loans, a period of up to five years. Customer services are provided on a one-to-one basis. At the same time it is important to note that, through its elected board, members of the TCU have made a conscious decision to maintain high transactions charges on members for making deposits. This money is being used to underwrite expansion costs through establishing branches in newly participating communities, and in covering the high costs associated with providing face-to-face services in remote areas. This reflects both recognition of the critical importance of banking and financial services to people's daily lives and a determination to ensure such services respond directly to people's particular needs.

At this point in time, the TCU membership and ownership base remains regionally focused on remote Indigenous communities in Northern Australia, with future benefits, such as an expanding capital base and profits, likely to predominantly flow to Indigenous communities in the region.

In the case of First Nations, its future ownership and focus will evolve over time. It is currently intent on extending and expanding its membership on a national basis in order to develop a sufficient customer and capital base to commence operations in its own right.

The experience of both the TCU and First Nations confirms that, where banking and financial services are provided that are marketed to respond to the needs of Indigenous peoples, the Indigenous response is a very positive one.

This is particularly reflected in the longer experience of the TCU, which has pursued policies resulting in:

- high levels of Indigenous employment;
- delivery of financial products tailored to the income levels of their customers;

- provision of specific assistance in the form of financial counselling and a free periodic payments facility; and
- a high degree of personal contact and support of its Indigenous customers.

With regard to the relatively high deposit charges, the TCU's membership has demonstrated a preparedness to bear these costs in order to retain and expand its services. On the other hand, First Nations's focus is on the provision of cost efficient services that rely predominantly on new technology.

9. Conclusions and recommendations

The issue of Indigenous people's access to, and understanding of, banking and other financial services is critical to their ability to participate in the cash economy. Informed access to such services plays an integral role in assisting people to budget, arrange to pay third parties, purchase food, goods and services, and maintain a level of financial and economic independence and planning.

Government policies that seek to assist Indigenous people to reduce welfare dependence and improve low income status should recognise that the achievement of such outcomes is inextricably linked to Indigenous people's ability to obtain informed access to essential banking and financial services.

Changes in the delivery of banking and financial services resulting from financial deregulation, changes in technology and increased fee charges will continue to have a significant impact on the Murdi Paaki region. These changes have had a disproportionate impact on Indigenous people, whose low income levels, comparative high levels of reliance on welfare payments and low levels of financial literacy place them at a continuing disadvantage in accessing banking and financial services. However, there has been little consideration given to the specific banking and financial service needs of Indigenous people.

These changes offer opportunities for partnerships, such as that currently proposed between Murdi Paaki Regional Council and other members of the Barwon Darling Alliance, to sponsor the development of alternative banking and financial services. However, the successful establishment of commercially sustainable credit unions requires long-term financial commitments with associated commercial risks, and concerted collaboration and cooperation, not only across differing organisations but whole communities. At present there is little awareness about the BDA proposal amongst individual Indigenous people and their organisations across the region.

A decision by ATSIC Murdi Paaki Regional Council to financially commit to the proposal will require significant support from its own key stakeholders. This support will only occur if Indigenous people and their organisations gain a *realistic* understanding and acceptance of the potential benefits of securing banking and financial services that are currently lacking in the region. The ATSIC Murdi Paaki Regional Council needs to carefully examine the possible combinations of strategic service delivery and other imperatives that it could advance via the provision of subordinated debt to the proposed BDA Credit Union. The response of the Federal Government to supporting a regional approach to the establishment of RTCs will form a key determinant of how quickly the BDA Credit Union will be able to extend its services into those communities who are the most disadvantaged under current arrangements.

Recommendation 1

Balanced by an independent and satisfactory assessment of the commercial risks arising from the BDA Credit Union business plan, ATSIC Murdi Paaki Regional Council should identify the priority strategic service delivery and other related imperatives it will negotiate with its other co-sponsors, in return for the provision of subordinated debt. The level of any subordinated debt should directly reflect the extent to which those identified imperatives could be realistically realised.

Recommendation 2

In partnership with the other members of the Barwon Darling Alliance, ATSIC Murdi Paaki Regional Council should consider making a formal approach to the Deputy Prime Minister seeking initial in principle support for the funding of a regional strategy to establish Rural Transactions Centres in eligible communities throughout the Barwon Darling Alliance Region.

Recommendation 3

In order to ensure that Indigenous people and their organisations in the ATSIC Murdi Paaki Region gain a *realistic* understanding and acceptance of the potential benefits (and risks) of involvement in the proposed BDA Credit Union, careful consideration needs to be given to the development of a educational campaign to raise Indigenous awareness of the issues involved.

Murdi Paaki Regional Council also needs to identify an appropriate legal entity to hold any shareholding or receive monies for the purpose of subordinated debt investment in the proposed Credit Union.

Appendix 1

Table A1. Number of major bank branches in Australia

Branches	ANZ	CBA	NAB	WBC	Total major banks	Total all banks
1990	1,092	936	1,286	1,301	4,615	6,575
1998	820	1,218	1,048	1,016	4,102	5,615
Net Change	-272	+282	-283	-285	-513	-960

Source: Walker et al. (1997) and Reserve Bank of Australia, Bulletin.

Table A2. Number of major bank agencies in Australia

Agencies	ANZ	CBA	NAB	WBC	Total major banks	Total all banks
1990	625	5,121	159	318	6,223	8,072
1998	125	4,015	94	160	4,394	6,367
Net change	-500	-1,106	-65	-158	-1,829	-1,705

Source: Walker et al. (1997) and Reserve Bank of Australia Bulletin.

Table A3. Number and location of bank branches and agencies 1990–98

Year*	Branches-metropolitan	Branches-elsewhere	Agencies-metropolitan	Agencies-elsewhere	giroPOST
1990	4,028	2,893	3,506	4,206	
1991	4,049	2,868	3,126	4,174	
1992	4,032	2,888	2,736	3,846	
1993	4,118	2,946	2,563	3,725	
1994	4,075	2,672	3,136	2,590	
1995	3,990	2,665	3,302	2,595	
1996	3,879	2,629	3,599	3,351	2,557
1997	3,499	2,662	3,652	3,367	2,627
1998	3,190	2,425	3,232	3,135	2,720

Source: Reserve Bank of Australia, Bulletin.

*All figures as at 30 June.

Appendix 2

This appendix presents simulated case studies. The following assumptions are made.

Town 1 has the following banking services: ATM, bank branch and EFTPOS. Town 2 has bank branch, EFTPOS but no ATM.

The bank fees and state taxes are explained in the paper.

In all cases the household comprises two adults and three dependent children.

The low income household (Case 1) has a monthly income of \$2,000 after tax (\$26,00 per month). This comprises CDEP wages and welfare payments. This household has one household savings type account and the minimum balance is below that required for account servicing fee exemption.

The higher income household (Case 2) has a monthly income of \$3,080 after tax (\$40,000). Both adults are working. This household has one household savings type account and the minimum balance is above that required for account servicing fee exemption and so there is no account servicing fee. The household also has a credit card. They have eight free transactions per month, all of which are used by EFTPOS.

Household 1, if living in Town 1, uses EFTPOS 16 times per month and uses giroPOST two times a month to pay electricity and telephone bills. This household, if living in Town 2, uses EFTPOS 16 times per month and uses giroPOST two times a month to pay electricity and telephone bills. In addition they make eight cash withdrawals per month over the counter. They have eight free transactions per month, of which they use two for over the counter withdrawals and six for EFTPOS use.

Household 2, if living in Town 1, uses EFTPOS 16 times per month. All other bills are paid for using credit card.

Household 2, if living in Town 2, uses EFTPOS 16 times per month. They make eight over the count cash withdrawals per month. All other bills are paid for using credit card.

Table A4. Simulated bank fees and state charges, monthly

	Low income household (Case 1)		Higher income household (Case 2)	
	Town 1	Town 2	Town 1	Town 2
Bank Fees	\$9.33	\$23.23	\$6.50	\$20.40
FID	\$1.20	\$1.20	\$1.85	\$1.85
Bank fees and FID	\$10.53	\$24.43	\$8.35	\$22.25
Monthly income	\$2,000	\$2,000	\$3,080	\$3,080
Per cent of income going to bank fees and FID	0.53	1.22	0.27	0.72

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