BANK POWERS AND PUBLIC RESISTANCE TO MEGA BANK MERGERS

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> Access to financial services is an essential requirement for participation in modern society. All consumers need mechanisms for storing and saving money and for receiving and making payments to third parties. In this sense, basic banking services have much in common with central utilities such as electricity, gas and water. (ACCC's submission to Financial System Inquiry (1996), cited in House of Representatives Standing Committee on Economics, Finance and Public Administration, 1999a:30)

Mergers among the largest domestic banks are one of the most significant international trends in the financial globalisation process.[1] However, in 1997, the Howard Government introduced the 'four pillars' policy for Australia, banning mergers among any of the largest four banks ('the majors'): the National Australia Bank (NAB), the Australian and New Zealand Banking Group (ANZ), the Westpac Banking Corporation (WBC), and the Commonwealth Bank of Australia (CBA).[2]

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1 The Group of Ten report recently found a high level of merger and acquisition activity in the 1990s among financial firms in developed countries with a significant acceleration in consolidation activity between 1997 and 1999 (Group of Ten Report, 2001). For an analysis of fostered consolidation in banking sectors via mergers in advanced economies in the 1990s, see Berger *et al*. (2000).

2 The Financial System Inquiry (also known as the Wallis inquiry) advocated removal of the 'six pillars' policy – a government ban on mergers between the

The main reason behind the Government's adoption of the 'four pillars' policy was strong public and political opposition to the mega bank mergers (i.e. mergers between the majors) before the Federal election in November 1998. A historically-rooted trajectory lay behind this strong public opposition to mega bank mergers at the time, reflecting the majors' economic power potential and their exercise of this power over their customers, employees and communities in retail banking. Governments have 'always been much more concerned about who was providing credit, and in what form, on what terms, simply because this affected not just one sector of the economy but all of them, and was also much more open to abuses of partiality or fraud' (Strange, 1998:27). Given the importance of banks to the economy and to financial policy making, special attention to the economic power *potential* of banks and its *exercise* is necessary. Power here refers to 'a communication medium through which a power-holder puts limits on the range of actions that might be selected by some other social or political actor' (Coleman, 1996:19).

This article is organised around three main themes. The first examines the biggest four Australian banks' economic power potential by assessing their economic strength gauged by their business powers and their customer base.[3] The main argument guiding the investigation is that financial firms that occupy a wide range of market segments with significant market share and a divergent customer base hold higher economic power potential than those who do not (Coleman, 1996:ch.2). The article will show that the Australian banking sector is highly concentrated and that the majors have considerable economic power potential.

The second theme concerns how the majors exercise their economic power. It is useful to analyse power from two perspectives: power to do something or power over someone (Lukes, 1986; Wartenberg, 1990; Schutz, 1995). According to Wartenberg (1990:85), 'a social agent A has

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largest four banks and two insurance companies. However, the government publicly announced that it would replace the 'six pillars' policy with the 'four pillars' policy, which only prevented mergers between the majors, in April 1997.

3 Following Coleman (1996, ch.2), the word 'potential' is used here because there is no automatic transfer of power potential into an exercise of power.

power over another social agent B if and only if A strategically constrains B's action environment.' This paper focuses on the exercise of bank powers over customers, employees and communities in retail banking. It offers some measures of the exercise of bank powers. It argues that, following the financial deregulation and privatisation of the last two decades, the majors, as fully profit-seeking competitive entities, exercised their economic power over retail and small-business customers, as well as bank employees. They did so by denying access to credit, banking products and services particularly in rural and regional Australia via extensive branch closures and mergers; by terminating banking jobs and/or by threatening to do so; and by placing constraints upon customers' action-environment in the form of increased costs for banking products and services (e.g. higher account servicing, transaction and credit card fees, and higher interest margins in small business lending).

The third theme concerns how the major banks' exercise of economic power planted the historical roots for the strong public opposition to the mega bank mergers.

Economic Power Potential and Market Share

Banks which are permitted by their regulators to engage in a wide range of financial services can be expected to have a higher potential to influence more of the behaviour of their clients, and to increase their overall size, than narrow banks or specialist banks (Coleman, 1996:20-7). Although there were no formal restrictions separating banking, insurance, and securities activities in Australia, the financial industry was strongly segmented along institutional lines prior to the 1980s. Bank activities were heavily regulated, in terms of the types of products they were allowed to offer, by government-imposed interest rate controls, and balance sheet restrictions (Carron, 1986; Edey & Gray, 1996; Drake, 1997; Kent & Debelle, 1999). Non-bank financial institutions (NBFIs), such as building societies, credit unions, merchant banks (or money market corporations) and finance companies, were comparatively lightly regulated. In this environment, the NBFIs were providing 'mortgage loans, instalment credit, and other specialist finance, satisfying the demand that banks were unable to meet on account of regulatory

constraints' (Bain & Harper, 1999:16-7). To illustrate, finance companies were providing direct lending for consumer goods, while the banks were restricted by government regulations (Lewis & Wallace, 1997:ch.8). Further, building societies were employing more competitive strategies than banks – having longer opening hours, higher interest rates on deposits, and a higher proportion of property valuation for home purchases (Lewis & Wallace, 1997:ch.5). Consequently, the NBFIs were increasing their market share at the expense of banks before the deregulatory period of the 1980s. However, as a response to the regulatory restrictions, each of the major banks had substantial ownership of the NBFIs.

The deregulation of the 1980s ended most controls over bank lending, foreign bank entrance, and capital movements. It allowed banks to compete against finance companies in the wholesale market, and against building societies and credit unions in the retail market. As a result, over the two decades between 1980 and 2000, banks, fund managers and insurance companies have expanded their market share at the expense of the NBFIs.

Table 1: Assets of Financial Institutions in Australia as a Percentage of Total Assets of the Financial Industry, 1980-2000

	1980	1985	1990	1995	2000
Banks	42	41	44	46	47
NBFIs	30	28	19	14	12
Life and Superannuation	19	19	22	27	28
Other managed funds	1	4	6	6	9
Other	8	8	8	7	4

Source: Kent & Debelle (1999: Table 2); Reserve Bank of Australia (2001:Table B.1).

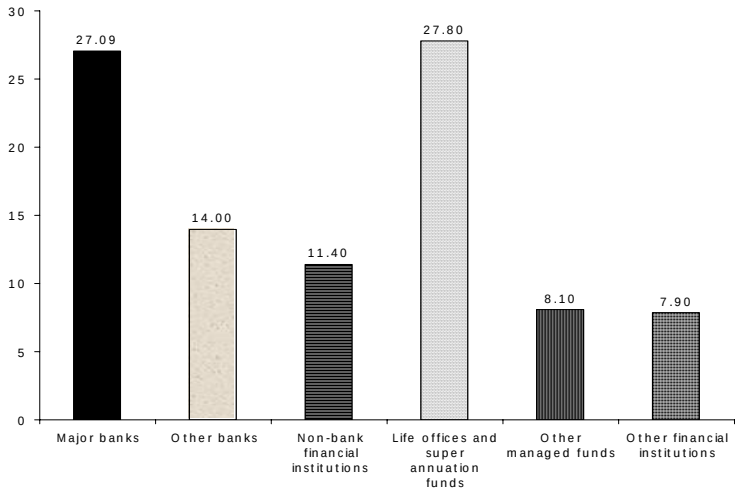
Note 1: Excludes assets of the Reserve Bank of Australia.

Note 2: Some of the NBFIs were absorbed by banks during this period.

Table 1 demonstrates the changes in the market shares of the main types of financial institutions in Australia. It indicates that the share of banks increased by 5 percentage points from 42 per cent in 1980 to 47 per cent in 2000, while that of the NBFIs declined from 30 per cent to 12 per cent during the same period. The NBFIs were consolidated into the bank

parent following the deregulatory 1980s. Thus, a significant movement in asset shares resulted from this policy shift.

Figure 1: Assets as a Percentage of the Financial Services Industry, 1997



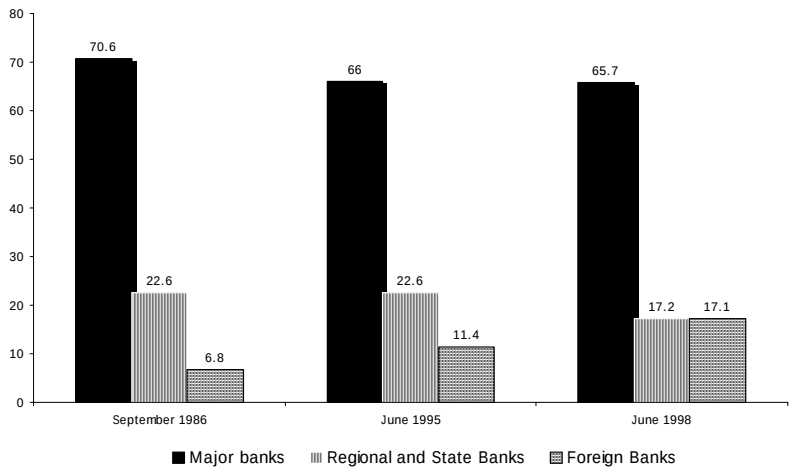
Source: Reserve Bank of Australia (1998: Table B.10).

Note: Excludes assets of the Reserve Bank of Australia.

In the mid-1990s, the financial conglomerates became dominant institutions, accounting for about 80 per cent of the financial industry in Australia (*Council of Financial Supervisors*, 1997:67). Each of the major banks, as the largest Australian financial conglomerates, had more than 75 per cent of total assets in the banking business. Funds management was the second main activity of these banks, with assets ranging from 5 per cent to 25 per cent, whereas insurance and stockbroking each occupied less than 5 per cent of total assets.

Figure 1 shows the financial institutions' market shares in the finance industry. The banking sector (including the major banks and other banks) dominated the industry, with 41 per cent of total industry assets in 1997. The biggest four banks' 27 per cent share in the industry's total assets was almost equal to that of the insurance and superannuation funds.

Figure 2: Banks' Market Share as a Percentage of Total Bank Assets



Sources: Reserve Bank of Australia, *Bulletin* various issues.

Note 1: Excludes assets of the Reserve Bank of Australia.

Note 2: Figure for June 1998 does not include government-owned banks which were already privatised.

Figure 2 provides details of the composition of total bank assets. The major banks evidently had a very strong position within the banking sector, with 66 per cent market share, whereas foreign banks, and State and regional banks as a group each had only 17 per cent market shares in June 1998.

Most foreign banks could not obtain banking licences and establish subsidiaries until 1985[4] when Australian banking was partially opened to foreign bank competition[5] (see Pauly, 1987). In February 1985, 16 foreign banks were permitted to establish local banking subsidiaries but they were required to confine their deposit-taking activities to the wholesale banking. In 1992, the foreign banks were allowed to establish branch operations to conduct wholesale banking; but retail banking could only be conducted through a locally incorporated subsidiary, on the grounds that local supervision and the depositor protection arrangements of the *Banking Act* (1959) could be applied. Consequently, although the foreign banks' share in the banking sector increased substantially, from almost 7 per cent in September 1986 to about 17 per cent in June 1998, they could not make an impact on the dominant position of the major banks in the retail and commercial market.[6]

The relative importance of state banking is also germane to an assessment of the power of banks. State banking is the direct involvement of the state in the allocation of credit (Zysman, 1983; Coleman, 1996:41-4; Verdier, 2000). The level of state banking can be expected to affect the economic power potential of banks. If the assets of financial firms are transferred from the public sector to the private sector, for example, private banks will have significantly enhanced power potential (Coleman, 1996:42).

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4 However, despite these restrictions, foreign banks participated in the financial industry through corresponding arrangements with Australian banks, through representative offices, and through the activities of foreign-owned merchant banks (Skully, 1987; Edey & Gray, 1996:26-9).

5 Only two foreign banks operated continuously as authorised banks, The Bank of New Zealand and the Comptoir National d'Escompte de Paris (Banque Nationale de Paris from 1966), which established their operations in 1874 and 1880 respectively. They were granted banking licenses to operate a branch in 1945. The share of these foreign banks in total banking assets with their two branches was one per cent in 1984 (Kent & Debelle, 1999, Table 1).

6 However, foreign banks dominate the wholesale banking sector. As the Wallis report puts it: "At December 1996, there were 73 merchant bank groups (comprising 134 individual registered institutions) operating in Australia with around $60 billion in total assets. Around 95 per cent of assets are held by foreign owned merchant bank groups, 36 of which are subsidiaries of foreign owned banks (FSI, 1997:348-9)".

Table 2: Numbers and Assets of Deposit-taking Institutions, 1990-1999

Deposit-taking Institutions	Number of Institutions		Per cent of Total Assets of Deposit-taking Institutions		Per cent of Total Assets of the Financial Industry	
Major Australian Banks	**1990**	**1999**	**1990**	**1999**	**1990**	**1999**
-Privately-owned	3	4	44.4	62.6	21.7	29.0
-Government-owned	1	0	14.9	-	7.3	-
Other Australian Banks						
-Privately-owned	9	8	5.7	17.1	2.8	8.0
-Government-owned	4	0	15.4	-	7.5	-
Foreign-owned Banks	18	36	10.8	15.6	5.2	7.2
Building Societies	51	19	6.4	1.8	3.1	0.8
Credit Unions	279	219	2.4	2.9	1.2	1.3
Total					**48.8**	**46.3**

Source: Gizycki & Lowe (2000: Table 2).

Table 2 shows deposit-taking institutions' numbers and assets as a share of the total financial intermediation sector and total financial industry. In 1990, five majority-owned government banks controlled more than 30 per cent of the total assets of the deposit-taking institutions and 15 per cent of the financial services industry. Government-owned banks had special roles in the Australian economy. In 1946, for example, the Industrial Finance Department (IFD) within the CBA was established to provide specialised financial assistance and credit to small business (Jones, 2001a). Later, the IFD 'was reincarnated' in the Commonwealth Development Bank (CDB) which began business in 1960 (Jones, 2001a:196). The CDB specialised in providing long-term loans to farmers, small and medium businesses and homebuyers. The bank offered flexibility in loan terms during hard times and 'catered initially to a clientele that had been rejected by the trading banks, and turned the

servicing of this rejected group into a profitable activity and a social service' (Jones, 2001a:196).[7]

There were also four State banks in 1991 – State Bank of New South Wales, State Bank of South Australia, R & I Bank of Western Australia Ltd, and Tasmania Bank. As a group they had 16,313 employees and 601 branches (KPMG, 1993:22). These State banks, like the CDB, had strategic functions:

> [t]o promote the balanced development of the [S]tate's economy…; to operate the bank with the view to achieving a profit to be regenerated within the state…; to provide a range of superior financial services as demanded by the people of the state with a commitment to excellence in quality of service; commitment to and sponsorship of selected community services as well as distribution of government funds to causes such as flood and drought relief; promotion of training and employment within the state; to provide competition to the privately-owned banks by establishing standards and a bench-mark of customer commitment (Adams, 1990:10-1).

Today, however, there are no majority–owned government banks in Australia. During the 1990s, they were all privatised or sold.[8] The fully privatised banking environment marked the end of the strategic functions and the protection of broader public interest in banking. For example,

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7 In the words of Ted Kolsen, Professor of Economics at the University of Queensland, the CDB 'helped establish 400,000 small businesses in its 30-year history' (cited in *Innisfail Advocate*, 15 November 2001). The CDB became wholly-owned subsidiary of the CBA in February 1991.

8 As the Wallis report summarises it: "Consistent with the recommendations of the Campbell Report, governments at both State and Federal levels have gradually withdrawn from direct ownership of financial institutions in the period since 1981. The Commonwealth Government has progressively privatised the Commonwealth Bank, with an initial public offering in 1991, and a subsequent float of the remaining equity in July 1996. State governments have also sold or privatised State financial institutions, including: in 1991, the Victorian Government sold the State Bank of Victoria to the Commonwealth Bank; in 1992, the NSW [New South Wales] Government finalised the sale of the NSW Government Insurance Office and, in December 1994, sold the State Bank of NSW to Colonial Mutual Life; and, in 1995, the South Australian Government sold the State Bank of South Australia to Advance Bank (FSI, 1997:592)."

> The CDB lending approach was not carried over into [the CBA] rural lending. Some CDB borrowers were taken over on normal commercial terms; others have been, at best, barely tolerated until their contracts run out. …the [CBA] arbitrarily changed the terms of the relationship with some CDB clients, imposing austere and erratic criteria on borrowers who had contracted to the Development Bank on other terms (Jones, 2001b).

Moreover, as building societies converted into regional banks, their number reduced from 51 in 1990 to 19 in 1999, and their market share in deposit-taking institutions declined from 6.4 to 1.8 per cent during the same period. The regional banks were former state banks or building societies, and they specialised in lending on home mortgages.[9] However, the major banks absorbed many of these banks through mergers.[10] Takeovers of regional and State banks were the key avenues for the largest four banks to consolidate their economic power. The Australian public became more vulnerable to rationalisation, pricing, and the commercial lending decisions of the majors which continue to operate wholly in the private sectors of the financial industry and dominate all retail market segments.

Economic Power Potential and Customer Base

Customer base is also a significant factor contributing to the economic power potential of individual financial firms. In particular, financial

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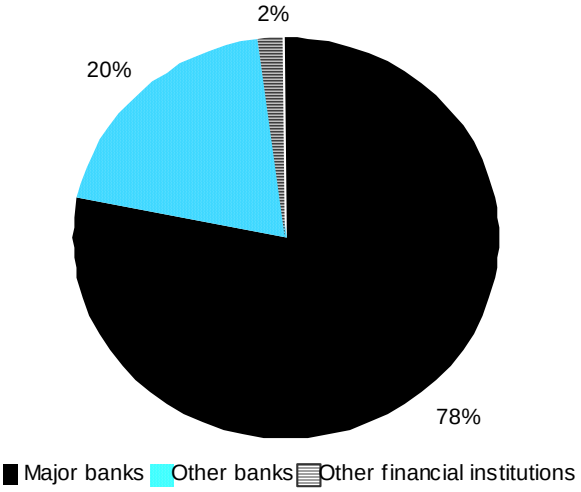
9 Some examples of the regional banks created from the building societies operating in the early 1990s include Advance Bank, Bank of Melbourne, Challenge Bank, Metway Bank, and St George Bank.

10 There were seven major banks before the mergers in the second half of 1981 which reduced the number of major private banks to three. In October 1979, the ANZ's takeover of the Bank of Adelaide was approved by the Treasurer. In June 1981, the structure of the banking sector changed significantly with the creation of two new banking groups: the WBC (a merger of the Bank of New South Wales and the Commercial Bank of Australia) and NAB (a merger of the National Bank of Australasia and the Commercial Banking Corporation of Sydney Ltd). The CBA acquired the State Bank of Victoria in 1991; and the WBC acquired the Bank of Melbourne in 1996. The Colonial Mutual Life Association was acquired by the CBA in 2000. For an examination of structural, economic and strategic factors which led to these mergers of 1981, see Stearn & Tress (1983).

firms that draw their customer base from divergent classes in society tend to have greater power potential than those whose activities tend to be limited to one class or a narrow set of societal groups (Coleman, 1996:20). The major banks' share in retail sectors of the industry therefore needs to be analysed to identify whether they have a broad customer base or not.

In general, regional banks and non-bank deposit-taking institutions (e.g. building societies and credit unions) mainly deal with retail customers and smaller businesses whereas commercial banks largely serve industrial and commercial firms. The major banks' shares in small business and number of retail accounts may thus be good indicators of whether they serve a broad social base.

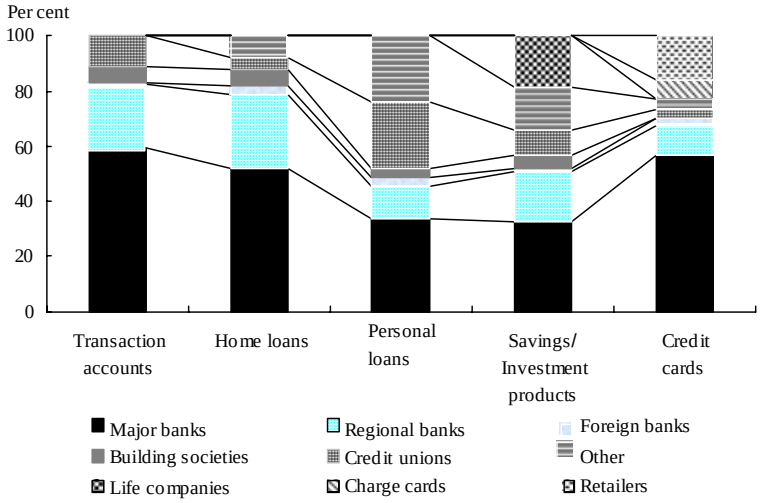
Figure 3: Small Businesses' Main Financial Institution as a Percentage, 1995



Source: Brian Sweeney and Associates in *Yellow Pages* (September 1995:18, cited in FSI, 1997:443).

As shown in Figure 3, the Australian banks, with 98 per cent share, dominated the small business lending market in the mid-1990s. Specifically, the four major banks as a group are the main source of finance for small businesses, with 78 per cent market share, whereas other banks and non-bank financial institutions have only 20 per cent and 2 per cent share, respectively.[11]

Figure 4: Market Share of Institutions by Number of Accounts, 1996



Source: Roy Morgan Research (cited in FSI, 1997:459).

The major banks offer the full range of products; this is reflected in their high market shares for most financial products (as shown in Figure 4).

11 In June 1998, the largest four banks held 62 per cent of commercial lending (excluding housing loans) provided by the banking sector to non-financial institutions (calculated from Reserve Bank of Australia, 1998: Table B.10). The major trading banks increased lending to agriculture by 249 per cent between 30 June 1984 and 30 June 1996 (Heilbron & Roberts, 1999:29). Their market share increased from 41 per cent to 57 per cent during the same period.

They have a diverse range of products in most retail market segments, such as home loans, personal loans, savings and investment products, and credit cards. In general, the major banks offer the full range of financial services and products, with significant market shares in the various segments of the financial services industry and with a broad customer base.

The Exercise of Bank Power over Customers via Branch Closures

Banks may exercise power over their customers by placing constraints on their action-environment in the form of reduced access to, or the loss of, credit and banking services. The number of bank branches per 10,000 inhabitants is one measure of consumer access to the banking services. A higher number of bank branches indicates greater consumer accessibility.

At the end of June 1995, the major banks had 5,005 branches accounting for 75.2 per cent of total bank branches in Australia (Reserve Bank of Australia, 1995). In 1996, the Reserve Bank of Australia (RBA) argued that 'Australia had the third highest ratio of bank branches to population, behind Belgium and Switzerland' (Reserve Bank of Australia, 1996:5). The Wallis inquiry final report found that Australian banks and building societies had 3.8 branches per 10,000 inhabitants. It suggested 1,000 branches would have to close to match the same branch density as Canada (i.e. 3.0), which was regarded as one of the best in international comparisons (FSI, 1997:208-9).

According to the RBA, the number of bank branches of the majors fell by 557, or close to 8 per cent, between 1993 and 1996 (Reserve Bank of Australia, 1996:2).[12] However, the reduced access to banking due to the

12 The CBA, in particular, has reduced the number of branches from – 1,813 in 1991 to 1,400 in 1996 (Reserve Bank of Australia, 1996:2, n.3); of the reduction, 304 were in Victoria. This was mainly due to the CBA's closure of branches in Victoria following the takeover of the State Bank of Victoria in 1991. In October 1996, the ANZ announced a minimum of 110 branches to be closed around Australia and up to 7,000 jobs to be shed in order to cut costs and increase efficiencies (*Sydney Morning Herald*, 28 October 1996).

branch closures was higher than the RBA figures would suggest. Indeed, the majors closed 1,228 branches between 1992 and 1998 (Walker, Corby & Murphy, 1997:8; cited in House of Representatives Standing Committee on Economics, Finance and Public Administration, 1999a:8). It is pertinent to ask why the RBA figures do not accurately show the magnitude of the bank branch closures. First, bank mergers distort the statistics for the largest four banks as merger activity inflates branch numbers for these banks. Second, building societies with extensive branch networks converted into banks during the 1990s, hence increasing the number of bank branches in the RBA statistics.[13] Third, banks may classify agencies as branches.[14]

Moreover, the branch closures disproportionately affected rural and regional communities. This is disguised by the RBA figures as breakdown between metropolitan and non-metropolitan branches was not available in the RBA's classification.[15] In fact, 'the towns with least access to [banking] services are the smallest towns' (House of Representatives Standing Committee on Economics, Finance and Public Administration [Hawker Inquiry], 1999a:14).[16] According to the National Farmers' Federation (NFF), a peak association which is associated traditionally with the National Party, there were '600 communities with populations between 200 and 5,000 in rural and regional Australia without access to a financial institution' (cited in

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13 For example, between 1983 and 1996, 13 building societies with a total of more than 500 branches became banks (Reserve Bank of Australia, 1996:4). It should also be noted that the converted building societies were mainly city-based (Reserve Bank of Australia, 1996:3).

14 For example, the CBA 'reclassified some 350 agencies as branches in 1991' (Reserve Bank of Australia, 1996:1, fn. 2).

15 Moreover, the term non-metropolitan underestimates the actual reduction in branches in rural and remote areas, since it included both rural and coastal areas. In specific terms, as Argent & Rolley (1998:10) argue, the RBA's metropolitan/non-metropolitan classification overstates the actual rural branch numbers in 87 rural and remote NSW localities by between 300 and 350.

16 Argent & Rolley (2000) found that two-thirds of rural localities in NSW that lost branches had experienced healthy population growth between 1981 and 1998. This evidence not only offers correction to the Australian Bankers' Association sponsored KPMG (1998) paper arguing for the opposite but also reinforces the social irresponsibility of the majors to rural communities in Australia.

House of Representatives Standing Committee on Economics, Finance and Public Administration, 1999a:10).[17]

One may argue that the banks rearranged their branch-based distribution and service delivery networks towards technology-based ones (emphasising ATMs, EFTPOS, telephone and internet banking). However, technology-based access, along with the introduction of GiroPost via the post offices of Australia Post in 1995, relates to customers' daily cash requirements (i.e. cash withdrawal and deposit) and does not substitute business banking services, full-access to payments systems, financial advice, and lending.[18] EFTPOS, for example, does not provide services for direct credits, personal deposits, withdrawals, and periodical payments for such expenditures as rent, housing, and electricity. It is also subject to transaction fees. Furthermore, 'many regional and remote communities simply do not have access to' technology-based delivery channels (House of Representatives Standing Committee on Economics, Finance and Public Administration, 1999b). The access provided via technology was also inappropriate for many farmers and the elderly, in terms of the flexibility and type of services offered (House of Representatives Standing Committee on Economics, Finance and Public Administration, 1999a:27; *The Australian*, 15 January 1998; *The Weekend Australian*, 21 March 1998). As the Hawker inquiry found, 'reduced *access* to cash withdrawal and deposit facilities', and 'business banking' [e.g. credit] constituted two of the main problems experienced by rural and regional communities that have lost their bank branches' (House of Representatives Standing Committee on Economics, Finance and Public Administration, 1999a:105-106, *my emphases*).

How did bank branch closures constrain individual, small business and community choices by altering the action-environments that 'condition their decisions, behaviour and values' (Schutz, 1999:245)?

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17 Furthermore, as Argent & Rolley (2000:182) argued, 'corporate-level responses to increased competition within the financial system are significantly more important in deciding rural access to banking services than local and regional population trends.'

18 GiroPost services had exposed a major shortcoming by 1998: only the CBA among the majors participated in it.

> For individuals the major impact of the bank branch closure was in the areas of: reduced savings; reduced investment income; increased size of cash withdrawals, reduced access to and increased cost of finance [i.e. credit]; and, reduced access to financial planning advice. …For [small] businesses the impact of the bank branch closure was felt in terms of an increase in cheque cashing, loss of cash sales, accumulation of excess cash, delay in deposit cheques, and increases in bad debts. …[For] the community as a whole in terms of reduced local loss spending, decline in financial investment and loss of community confidence [in its own future] (Ralston & Beal, 1997:128).

Similarly, the NFF stated that the rationalisations of branch networks and unemployment pose serious economic and social consequences for the rural community:

> When bank branches close, people in rural communities have to travel greater distances to access bank services and deal with the inconvenience and added costs involved. When people travel to larger centres they also conduct other business there, reducing the viability of local businesses and other service providers. The loss of jobs can result in the out-migration of households and the loss of business and participants in community organisations. Economic and social effects [of bank branch closures] place the sustainability of rural communities at risk (NFF, 11 February 1997).[19]

In short, savings, investment, and spending behaviour of the public changed substantially due to the bank branch closures.

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19 The Country Woman's Association of NSW drew attention to the implications for an older population living in the bush: 'Some older residents feel that if the basic banking facilities… are not made available, leaving the district may be the only option for them' (*The Weekend Australian*, 21 March 1998).

The Exercise of Bank Power over Customers via Higher Interest Margins and Fees

Banks may also exercise power over their customers by setting high interest rate margins and fees, thereby boosting profitability at the expense of bank customers' interests. The RBA survey on bank lending to small business revealed that small businesses rely more on variable rate loans than do larger businesses (Reserve Bank of Australia, 1994:30). High variable rate loans for small businesses were one of the avenues through which the majors exercised power. For example, in June 1997, the margin of the total interest rate for variable loans of less than A$100,000 for small business was 5.1 per cent above the cash rate in Australia (Reserve Bank of Australia, 1999a:6). This was 1 to 2 percentage points higher than that of other developed economies (Reserve Bank of Australia, 1999a:6).

In addition, the majors have discriminated between city-based small businesses and rural small businesses in their lending decisions. The majors have exercised economic power over farmers, not only through high rural lending margins but also through penalties of higher interest rates being incurred. For example, high interest rate margins on overdraft facilities were running at up to 5 percentage points for primary producers in the late 1990s.[20] The loss of knowledgeable and experienced bank staff in rural banking, due to both bank branch closures and the dismantling of specialised lenders, inflated risk premiums for small business lending in rural Australia.[21] This was another example of

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20 As the *Australian Financial Review* reports: "…Queensland [primary farm] producers had been able to refinance their borrowings at 8 per cent by structuring the loan as an investment or development loan. But most were locked into a rate of 10 per cent on rural business loans while their city cousins could borrow money for 2 percent[age point] less. The "killer" for so many farmers was the rural overdraft which was 10 per cent, but invoked a 3 per cent penalty for going even $1 over the draw down limit, a situation affecting all but the wealthiest" (*Australian Financial Review*, 23 September 1997).

21 'Denial rates' for small business loan applications in rural and urban areas are not available in Australia.

inefficiency and monopolisation of the bank lending practices in the deregulated Australian financial services industry.

The major banks have also exercised power over small business customers by imposing high transaction fees (i.e. fees per transaction). Meanwhile, small businesses have felt the impact of bank branch closures in terms of an increase in cheque cashing (House of Representatives Standing Committee on Economics, Finance and Public Administration, 1999). Average fees charged for cheque withdrawals ($ per cheque) by the major banks increased by 100 per cent from 0.23 cent in 1994 to 0.46 in 2001 (Reserve Bank of Australia, 2002: Table 4).

Table 3: Fees of Major Banks (in A$ terms)

	1991	**1995**	**1999**
Account- servicing (per month)	0.00	2.00	4.00
Transaction fees (per transaction)			
Own bank's ATM	0.30	0.40	0.60
Other bank's ATM	0.30	0.40	1.30
EFTPOS	0.30	0.40	0.50
Cheques	0.50	0.70	0.75
Counter withdrawal	0.50	1.00	2.15
Number of free transactions	11	11	8
Range of minimum balances require to waive account-servicing fee	0-500	300-500	0-1000

Source: Reserve Bank of Australia (1999b: Table 1.3).

Table 3 summarises the cost to households of running a bank account and making transactions, with special reference to the average of bank fees charged by the majors during the 1990s. Households, which did not pay for account servicing fees in 1991, faced a 100 per cent increase from $2 in 1995 to $4 in 1999.[22] During the same period, Australian

22 As the RBA (1999:20) noted, '[t]o some extent, increased fees have been by-products of increased competition in lending, as the latter has reduced the ability of banks to cross-subsidise services –i.e. pressure on interest margins has reduced banks' capacity to use this source of income to subsidise other services to retail clients.'

cardholders who used a card of their own bank's ATM faced a 100 per cent fee increase, whereas they had to accept a 231 per cent fee increase when using an ATM which was not operated by the bank that issued the card. Similarly, fees for EFTPOS, cheque and counter withdrawal transactions increased dramatically, whereas the number of free transactions decreased between 1991 and 1999. Interchange fees charged by the majors for credit cards were excessive and 'generating revenues of 64 per cent above costs' (Brenchley, 2003:214).[23] Low-income people, in particular 1.6 million age-pension recipients, were disadvantaged significantly due to the high transaction fees (Oliver & Morgan, 1998).[24]

How is the public's banking behaviour influenced by high fees and charges? According to a research on attitudes to bank fees and charges commissioned by the Prices Surveillance Authority in May 1995, the main actions taken by account holders were to conduct 'fewer transactions (49%), maintain a minimum account balance (32%) [and] minimise the use of ATM (10%)' (PSA, 1995:H–14).

The majors are oligopolies acting like textbook monopolies. In retail banking they have effectively translated their economic power potential into the exercise of actual power. The majors' total annual income has increased by %99 from $18.8 billion in 1992 to $37.5 billion in 2003 (*The Age*, 15 November 2003). The share of non-interest income, comprising bank fees, commissions and charges, in their total income

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23 The Australian Competition and Consumer Commission instituted legal action in the Federal Court against the NAB for price-fixing on credit card fees (*Australian Financial Review*, 5 September 2000).

24 The banks' exercise of power via transaction fees created two main concerns: "[First,] [t]hose who are neither substantial borrowers from nor lenders to the banks will not recoup the cost of the fees through reduced interest-rate margins; they lose unambiguously from the move to direct fees. Many Social Security customers would be in this category. [Second,] [s]ome fees seem to be much more than the actual cost of the transaction; they are intended to strengthen the market position of the bank concerned. An example is the substantial fees charged by some banks for withdrawals made through other banks' ATMs…Apart from the possibility that such fees do not promote competition, they can disadvantage people on low incomes who cannot afford to travel to other suburbs or towns to use their own organisations' ATMs. Both problems are aggravated in rural areas" (Oliver & Morgan, 1998:2,7; House of Representatives Standing Committee on Economics, Finance and Public Administration, 1999a:27).

increased to 44 per cent from 37 per cent during the same period. Not surprisingly, the majors wield significant economic power in the financial services industry, which is reflected in their net profits. Their net profit rose by 251% from $2.35 billion in 1991 to $8.25 billion in 2001 (*Herald Sun*, 12 December 2001). Apparently, the majors have boosted their profits at the expense of retail customers.

The Exercise of Bank Power over Employees

Banks may also exercise power over their employees by terminating jobs and/or threatening to do so. During the seven years between 1990 and 1996, the biggest four banks cut 47,000 full-time jobs (*Sydney Morning Herald*, 4 March 1997).[25] Moreover, the employment implications of any further restructuring of the banking sector would be huge. A merger between the two major banks would certainly force the remaining two big banks to merge. A research report by McIntosh Baring in 1996, *Australia's Bank: a Ready Reckoner*, showed that 35,000 jobs would be lost as a result of such an amalgamation process (cited in FSU, 1996:13). The figure is equivalent to almost 22 per cent of the total number of employees (i.e. 160,150) working in the majors in 1996 (for distribution of employees among the four banks, see *Banker*, July 1997:142).

Not only the termination of jobs but also the threat to do so has been used by the majors to exercise power over their employees. For example, according to an extensive survey of the Finance Sector Union, forced retrenchments in the banking sector led to 'a growing sense of job insecurity' among employees: 'Whereas once the sector provided secure lifelong employment, there is a sense that there is now no job security at all' (FSU, 1996:9). In particular, the threat of future mergers or takeovers was pivotal in the growing sense of job insecurity among bank

25 The RBA noted that 'even though total financing activity in the economy has expanded over the past 15 years at a rate about twice that of Gross Domestic Product, employment in the finance sector [*sic*] fallen relative to total employment' in 1999 (Reserve Bank of Australia, 2000:20). For example, the banking sector accounted for 3.5 per cent of total employment in 1999, compared with 4.5 percent in the second half of the 1980s.

employees: 'If the major companies can merge and takeover, forced retrenchments will be inevitable' (FSU, 1996: 11-2).

Public Resistance to Mega Bank Mergers

Prior to the deregulatory 1980s, the liabilities of banks primarily composed of current (non-interest bearing) and time (interest-bearing) deposits (FSI, 1997:ch:14). These deposits were the dominant sources of funds. Interest rates that banks could pay on the time deposits were also subject to interest ceilings. Accordingly, interest rates were underpinned by low-cost deposits and capped by government policies. As a result, competition among banks was largely based on attracting retail deposits through establishing extensive branch networks in rural and regional Australia.

The response of the major banks to deregulation and the financial globalization process 'has been to steadily introduce a series of fees and charges more in line with a user pays approach to pricing of its services especially its previously subsidised transaction services' (Walker, 1998:3). Further, the majors introduced substantial branch and staff rationalisations, particularly in rural and regional Australia.

Banking practices such as 'user pays', 'cross subsidisation', and 'rationalisation' marked a new era, ending the banks' social obligation to provide credit and accounts at modest costs.[26] However, many view banking as 'an essential service' in Australia, which imposes an obligation on the banks to provide services to the community (House of Representatives Standing Committee on Economics, Finance and Public Administration, 1999a:30). Not surprisingly, a tension has grown between societal values and financial market values. In the words of a Wallis committee member:

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26 As Adams (1990:14) noted, in regard to 'social responsibility and community involvement… the State banks … performed better than private banks'. The government-owned banks had a strong social commitment to provide, for example, longer branch opening hours and accessible housing loans (e.g. up to one per cent lower than that of privately-owned banks) to the community (see Adams, 1990:37).

> The fact that banks were regulated such a lengthy period of time [before the deregulatory 1980s] most people thought that banking was essentially an arm of public service and a utility. And banks were heavily regulated and allowed to earn higher profits but required in return to perform functions of almost utility. Because with the deregulation, the banks, of course, have cast a totally different model and have been revising the range of services they offer. Now, because of deregulation banks are fully privatised, fully profit-seeking competitive entities like anybody else. In particular, they are no longer in a position to cross-subsidise services as they once were. They withdrew those services. People are objecting to that because they figured that banks were turning their backs on their social responsibility…People, rightly or wrongly, think that the major banks are making too much money and they ought to be using it in a more responsible fashion (Interview, 25 October 2002).

The major's strong political pressure on the Liberal Party for the removal of the 'four pillars' policy has been countered by the mobilisation of interest organisations of farmers, bank employees and consumers, with significant political support from political parties in opposition (especially the Australian Labor Party and Australian Democrats) as well as the National Party (Bakir, 2005). They have a uniform view that mergers amongst the largest four banks would mean further branch closures, job losses and reduced consumer choices.

In April 1998, the Australian Consumers Association's banking survey showed that 77 per cent of participants agreed that customers would be worse off if bank mergers continued (*The Australian*, 15 April 1998). It was this strong public disdain for the banks that meant any relaxation of bank merger policy would run the political risk of antagonising voters before the 1998 federal election. In particular, an opinion poll in November 1998 showed the strength of public opposition to the removal of the 'four pillars' policy. Newspoll conducted a public opinion poll based on interviews about bank mergers with 1,200 people across Australia (*Australian Financial Review*, 27 November 1998). The poll indicated that almost two-thirds of the Australian public was against the mergers among the four major banks and one-third of respondents were less likely to support a political party that allowed a merger (*Sydney Morning Herald*, 28 November 1998). Job losses, branch closures, and

higher fee charges were the main reasons cited for public opposition to the big bank mergers.

Politicians can be expected to attach great value to public opinion, responding to the public's policy preferences to avoid the threat of an electoral backlash (Jacobs & Shapiro, 2000). The Howard Government was the first Australian Government to rely on regular party polling to adjust its political messages and ensure that it closely monitored voter concerns (*Australian Financial Review*, 14 March 1996). In particular, it has been sensitive to public opinion on the issue of bank mergers due to its vulnerability in rural/regional Australia. The rise of Pauline Hanson's One Nation party during the first term of the Government placed the National Party under threat in regional electorates, creating pressure on the Coalition Government to win back rural votes (Kingston, 1999; *Australian Financial Review*, 19 October 1998). 'Greater rural dispersion of branch banking in Australia', in the words of the Wallis committee member, was a factor that increased the sensitivity of the Howard Government:

> We have a large rural and regional constituency who gets substantially left-out when bank branches were closed. What goes in the bush, as we call it, can become politically sensitive. [This is] part and parcel of the myth in Australia that we are still a farming country. So I think there are particular sensitivities that arise from that (Interview, 25 October 2002).

Unsurprisingly, Howard, with the opinion poll results in hand, restated at the annual meeting of the NFF on 24 November 1998 that the Government would not change its big bank merger policy:

> [W]e would not agree to any mergers taking place, any further mergers of the majors, in other words we'd maintain what's called the four pillars policy, until we are satisfied that there were a greater level of competition than now exists (Howard, 1998).

The 'four pillars' policy is likely to stay until the majors improve their negative public image. Not surprisingly, they have increasingly adopted a public relations strategy with this intention, putting particular emphasis

on their social responsibility. In doing so, they aim to soften the public resistance to mega bank mergers. In 1998, for example, the WBC 'promised better interest rates for farmers; ANZ promised to stop rural branch closures for the next year and [the NAB], with the WBC, conceded banks had a social responsibility' (*Sydney Morning Herald*, 1 August 1998).[27] They also offered the disadvantaged and the elderly access to low fee, or no fee, bank accounts in 2001 (*The Weekend Australian*, 15 December 2001). They have significantly improved their image as responsible corporate citizens, as evidenced in the *Sydney Morning Herald*'s 2001 'Good Reputation Index' which surveyed Australia's largest 100 corporations. The WBC rose to position number two on the overall reputation index, up from 35 in 2000, whilst the NAB reached number 12 from 69, the CBA was up to 25 from 70 and the ANZ rose to 37 from 45 (*Sydney Morning Herald*, 22 October 2001). Most recently, the NAB used an influential religious public speaker on social ethics and responsibility and a spokesman for the Inter-church Gambling Taskforce, Tim Costello, to head its Community Consultation Forum. This followed the NAB's decision to withdraw its 138 automatic teller machines from poker venues across Australia from 1 October 2003 (*Sunday Age*, 15 June 2003).

The historically-rooted trajectory behind the strong public resistance to the removal of the 'four pillars' policy is being countered by these public relations initiatives. The major banks continue to have enormous economic power potential. They have exercised this power over their customers, employees and communities via branch and job rationalisations, and higher interest rate margins and transaction fees. These features of the Australian financial services industry, emphasised in this article, suggest that more struggles over policies dealing with mergers and regulation in banking sector are likely in the years ahead.

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27 The majors through the Australian Bankers Association also did a A$1.2 million secret deal in 1998 with Australia's leading radio commentator at the time, John Laws, to improve their image (*The Australian*, 12 April 2000).

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