

## Regional Banking Taskforce submission

The Community Bank National Council is the conduit linking Bendigo and Adelaide Bank with the Community Bank network. We make this submission, on behalf of the 240 locally owned companies in our network, to the Taskforce on Regional Banking in the hope that potential solutions may be explored for maintaining and improving banking services and accessibility. Our submission contains a snapshot of our Community Bank model, its early days and evolution; Community Bank impact; current challenges; recommendations and concluding comments. This information is provided along with company data and case studies to bring the breadth and depth of our future state innovations and community investment to life.

Through our vast and diverse network, we are intrinsically linked to hundreds of rural and regional Australians, and as such, we provide a unique insight into the experience, aspirations and activities of the people living in these communities.

We know what's happening at a grass root and at a national level. As a result, we present five key recommendations to the Taskforce to help ensure accessibility to banking services in regional and remote Australia. These are to:

1. **Review the taxing of Community Banks** which essentially operate like an NFP. Implement policy change that would enable us to continue to support the prosperity of regional and remote communities without the onerous burden of corporate tax.
2. **Address connectivity issues** to ensure accessibility of banking services across regional and remote Australia.
3. **Invest in training and development** to address skills shortages in regional communities.
4. **Facilitate collaboration and enable broader discussion with government areas** that may assist the work we do in maintaining and improving community outcomes.
5. **Encourage shared service models** to improve social outcomes and economic productivity. This may also include subsidising essential services (including banking) through co-locations to help improve access in regional communities.

We would like to affirm the Community Bank network, in partnership with the Bendigo and Adelaide Bank, is committed to working with government to grow prosperous, vibrant and sustainable rural and regional communities. We believe we offer practical solutions in light of the growing concern about accessibility of banking services for our regional and rural communities. We thank you in anticipation of your consideration and welcome further discussion.



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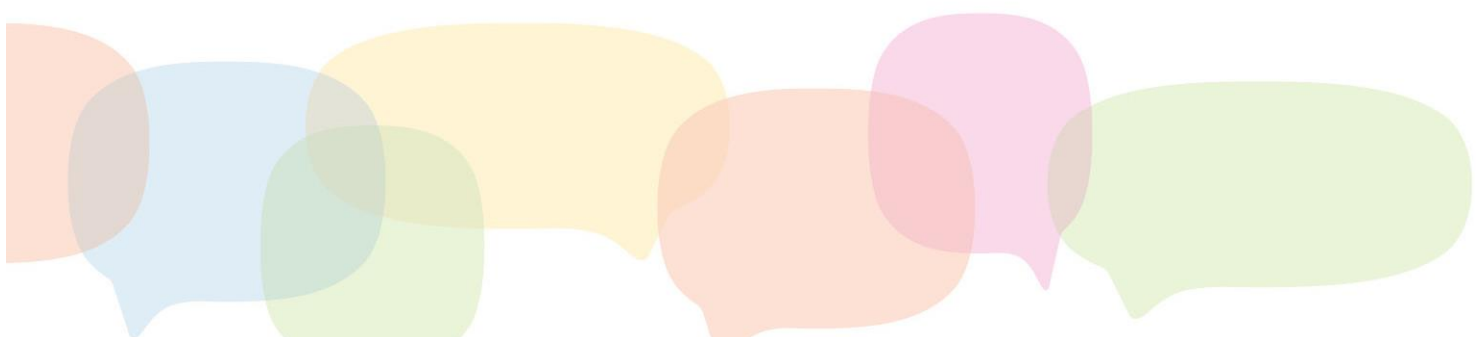
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## Community Banking

### 1. About the Community Bank model

Community Banks are owned and operated by local community enterprises, themselves owned by locally based shareholders. They provide banking products and services in a franchise partnership with the Bendigo and Adelaide Bank. Each Community Bank is governed by a board of directors (typically drawn from the local community) and employs specialist banking staff locally.

To form a Community Bank, communities campaign locally to build a network of supporters, shareholder and future customers to raise the capital and customers required to make the enterprise an ongoing success. Once the necessary thresholds are met, Bendigo and Adelaide Bank partners with the enterprise to deliver banking services to that community. Profits are then shared between Bendigo and Adelaide Bank and the community enterprise in a symbiotic relationship that sees the bank feed into prosperity, not off it. Since its inception, the Community Bank network has returned more than \$272 million of these profits back to Australian communities.

#### 1.1 Inception of the model

In the 1990s a number of Australian banks rationalised their branch footprints with almost 2,000 branches closing their doors across the country (Edey & Gray 1996). More than one third of those closures were in regional towns, many of which were left with no banking facility of any kind. Additionally, the digital and mobile banking innovations many of us enjoy today were non-existent. These closures significantly impacted the economic prosperity of these communities, often prompting the departure of other services and businesses. This has further contributed to population decline in these areas (ABS 2019 – 2020).

Bendigo and Adelaide Bank's Community Bank model was developed in response to this problem. The first Community Bank branch opened in 1998. Since then, more than 300 Community Bank branches have opened, with about half of the network located in regional or rural locations. At first, Community Bank branches filled the economic and social void following the closure of major bank branches in rural areas.

Both commercially focussed and community spirited, today the Community Bank network consists of 317 locally owned and operated branches across Australia in cities, suburbs, regional and rural communities. As a shared value model that fuels and supports social and economic outcomes, Community Banks have been able to maintain a positive relationship with local government, industry and investment communities as a trusted, relevant and progressive banking partner.

#### 1.2 A model based on shared value

Shared value is a concept described by Professor Michael E. Porter of Harvard Business School and Mark Kramer, co-founder and a managing director of FSG, in their 2011 seminal Harvard Business Review article, Creating Shared Value. Porter and Kramer define shared value as "policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the

communities in which it operates. Shared value creation focuses on identifying and expanding the connections between societal and economic progress.” In proposing shared value, Porter and Kramer articulated an alternative to Corporate Social Responsibility.

The Community Bank model is a shared value model. Integral to the Community Bank business philosophy is the notion of mutual wealth creation, shared meaning, shared values and reciprocity (Pervan and Johnson, 2003); concepts that have strong social connotations as well as strategic implications. As Michael Porter stated: “Bendigo Bank is one of those troublesome companies that was doing shared value long before we started talking about it” (Harvard Business Review, 2011).

The Community Bank network formed to address social problems while meeting business objectives. A key element in the success of Community Banks has been the ability to effectively integrate and manage a variety of collaborative relationships among diverse stakeholders.

### **1.3 How we build local capacity**

Community Banks are predicated on an innovative and entrepreneurial ownership, structural and operational framework that provides a mechanism through which social, as well as economic development and wealth creation may be actively pursued by the community. Social interests and the development of social capital are innate to the Community Banking paradigm. This means that the initiative serves to empower and build confidence and capacity within local communities.

Community Bank branches are owned and run by a local community enterprise which serves to strengthen and diversify the local economy. It provides new ways for locals to become shareholders and support a truly local community enterprise.

Not only is the local community rewarded with access to banking services previously unavailable, but these communities also experience an expanded capital base and income flow that stimulates further economic growth. The branches create local employment opportunities, helping to sustain population in regional and rural areas. Currently more than 1,600 staff are employed by Community Bank branches nation-wide. In FY21, the Community Bank network paid more than \$83 million in salaries, with the flow on economic impact generating further job opportunities and retail demand at a local level.

### **1.4 Leveraging Community Banking for community building**

Community Banks do more than just provide banking services. Community Banking empowers people by creating an alternative source of income that communities can use to fund local initiatives. Communities will often leverage this Community Bank capital to attract investment from other stakeholders, including government. Our Community Banks provide the capital, local leadership and leveraging needed to get major projects and infrastructure underway.



As such, Community Banking has a long history of fully funding or providing seed funding for major infrastructure projects worth millions of dollars. The network also operates at the grassroots meeting shortfalls in community funding to help field a footy team, provide books for a school reading program or a fridge for the community hall. These are the little things that make a big difference, improving the quality of life in regional and rural towns, which in turn helps attract other people, business and industry to the community.

### **1.5 Nurturing local leadership**

Community Banking builds local leadership capacity and governance practices through local volunteer directors overseeing the operation of the local Community Bank company. More than 1,900 directors volunteer on average seven hours a week to ensure the successful running of their local Community Bank company. Many of these directors are also involved with local businesses and organisations like sports clubs, local council or social and emergency service groups. These Community Bank directors decide where and how much capital will be invested in local initiatives while also distributing earnings to local shareholders.

### **1.6 Adapting the model**

Community Banks, like many businesses across Australia, are navigating the commercial challenges that come with an increasingly complex business environment and a growing preference for digital access among consumers. For the banking sector, Accenture in 2018, predicted that by 2025 there'll be 30 per cent fewer branches; 70 per cent fewer tellers; 50 per cent of staff in 'new relationship roles' and 30 per cent less floor space. These changes are in response to current trends that include the shift to digital transaction, consumer need for human touch and the expectations set by other retail experiences. These trends have contributed to an urgency for Bendigo and Adelaide Bank, in partnership with the Community Bank network, to look for different ways to deliver banking services. Reducing complexity, increasing capacity and investing in capability are all part of the solution but they only go so far. Add to this the range of economic pressures including low growth, low interest rates, margin pressure and an uncertain outlook, it means banks are now forced to re-imagine their operating model and new ways of working.

With the acceleration of digital adoption, banks have responded with a larger inventory of customised electronic services. The high penetration of mobile use in particular, means consumers expect a seamless customer experience. This warrants the need for banks to invest in their digital offerings.

### **1.7 The future of the model**

The Community Bank model was developed at a time when banking was primarily delivered through branches. Since that time, the profound shift in customer preferences towards self-service and digital banking is challenging traditional modes of banking delivery.

For the Community Bank network, our focus is on how we can continue to work with our local communities to harness the potential we have to keep providing support in the future. The Community Bank model must transition today and over the next decade to continue delivering shared value.

Our physical presence by way of branches is an important part of our strategy, however we are already seeing an increase in branch consolidation, reduction of footprint, sharing of resources and innovative delivery of our services as the network responds to the changing nature of customer needs. This isn't a regional issue; company enterprises are adjusting their presence all over the country as a response to the ever-changing financial industry environment.

While banks may look different in the future, connecting with our customers remains a central focus. Some Community Banks have adopted unique approaches to building connections in the community while still moving forward with digital adaptations. This transition to community hubs, alongside other innovations, is what will ensure Community Banking remains viable into the future.

We firmly believe the success of our model is not wedded to the traditional branch. The power of community banking is in its focus on person-to-person relationships. The ongoing role of a connected community has meant traditional bricks and mortar branches have given way to community hubs to attract and deliver on what is being requested and to add value even further. Therein lies an opportunity for other services (i.e., government, state & national) to be delivered which are needed in regional and rural communities.

## 2. Community Impact

Community Banks provide more than banking services to the communities in which they operate. The following case studies are examples of the impacts our Community Banks are having.

### CASE STUDY 1 – Innovation

Community Banks (CB) have been exploring collaborative partnerships with key stakeholders in communities across the country. Many have formed community or business hubs (co-locations) that have a broader community service delivery objective. Examples include:

- Bega CB co-located with a café
- Victor Harbor CB sits within a community space, including solicitor and coffee shop
- Lorne CB co-located with a legal firm
- St Helens CB co-located with an artist/gallery space
- Smithton CB co-located with a stationary supply business
- Ringwood East co-located with a café and community space
- Lang Lang visiting professionals use office space e.g., accountancy, legal, medical.
- Narre Warren South City of Casey service desk (now closed)
- Mallacoota co-located with Vic Roads

Customer Service Centres also operate from shared locations as evidenced by:

- Northam CSC co-locating with a real estate agent
- Willunga CSC co-locating with a pharmacy
- Beaudesert CSC co-locating with a real estate agent

The contribution of the Community Bank network to local economies across Australia is profound. We have expanded our efforts to attract, retain and build skilled labour in regional and rural communities Australia-wide through a number of purpose-built programs and initiatives. Even with redeployment and remote work, staff are retained to fulfill other job functions while opening hours are reduced. In partnership with Bendigo and Adelaide Bank, our network has a strong focus on educating and upskilling young people and the following case studies detail how these efforts are building human and economic capacity across our regions.

### **CASE STUDY 2 – The Bendigo and Adelaide Bank Scholarship Program**

The Bendigo and Adelaide Bank Scholarship Program, of which the Community Bank is a partner, was established in 2007 to address the disadvantages students from regional areas face in attending tertiary education. These programs are locally based, capacity building initiatives aimed at keeping talent within or attached to regional centres.

Starting from just one scholarship, the Program has since become the Bank's most financially and socially significant contribution to education, addressing the growing gap in education levels between metropolitan and regional areas. To date, the Program has awarded 1,158 recipients a total of \$10.2 million to support tertiary and TAFE study. Of those recipients, 32 percent are studying health; 15 percent agriculture and environment; 11 percent society and culture; 10 percent natural and physical sciences and six percent creative arts.

In the last year alone, 274 scholarships were awarded with \$1.1 million in funding and an average scholarship value of \$3,836. As part of the ongoing expansion of the Program, the Bank has attracted partners such as La Trobe University, the University of Melbourne and Montmorency Secondary College. Representing all corners of Australia, the successful recipients are the next generation of leaders who will bring fresh and innovative ideas to their regions.

### **CASE STUDY 3 – The Social Enterprise Schools Program**

The Social Enterprise Schools Program is another way Community Banking has addressed rural decline – promoting liveability and capability of community. The Program is a practical, student-led experience that develops citizenship and enterprise capabilities. It empowers young people by equipping them with skills, knowledge and capabilities to drive their own careers. The Social Enterprise Schools Program brings students, teachers, local entrepreneurs and community leaders together to develop the skills, mindsets and behaviours to make a positive social impact.

Community Bank Mansfield and District, under its community impact plan, is funding 150 primary school students each year for three years (total impact 450 students) to participate in the Program.

Not only does the Program address growing social issues such as regional area population decline, but it also engenders leadership; addresses youth mental health – instilling purpose, connection and much-needed confidence in our youth.

### **CASE STUDY 4 – Black Summer Bushfire Appeals FY21**

Our Community Bank network are often the first responders during times of natural disaster. Our directors and staff are at the frontline of help – delivering food hampers during COVID-19, cleaning up after floods and corralling community leaders in the wake of devastating bushfires. We provide support to local communities during crisis and well after in the recovery process.

One regional area that was particularly devastated by these bushfires was Murrumbidgee. The town was cut off for several days, locals had to be rescued from beaches and there was an extensive loss of homes, wildlife and buildings throughout the town. With the help of Community Bank Murrumbidgee, the community was able to set up the *Murrumbidgee* and District Recovery Association Inc (*MADRA*) to manage the crisis. Two years on, the town is beginning to recover. You can watch their story [here](#)

Our Community Bank Murrumbidgee provided both leadership and frontline support. To date, the Murrumbidgee Community Bank has provided \$4.3 million to the local region.

### **3. Challenges to Community Banking**

Community Banking is not without its challenges. The following paragraphs explore some of these challenges in detail.

#### **3.1 Connectivity and digital inclusion**

The significant advances in technology have enabled the delivery of digital services through regional Australia, but it is not ubiquitous as it is in major population areas along Eastern Australia. There are significant pockets of regional and remote Australia where reliable access to high-speed internet and mobile coverage remains challenging, especially for those customers who are farmers that are not close to town centres. Areas between Griffith, Hillston and Hay in NSW is one such example. For these customers, where satellite solutions are not affordable or have too many limitations to be practical, this prevents them from accessing digital services without the need to travel to a township. If they have to travel to a township, then local service delivery is their preferred method of transition. This situation is also present just outside of the national capital, where localities such as Bungendore and Wamboin are not serviced by NBN outside of



the township. Further compounding the issue, aging ADSL infrastructure is failing which limits access to those who are more than five kilometres from the exchange.

The lack affordable and unreasonably limited satellite services inhibits not only the accessibility of vital banking services but impacts a whole range of services i.e., tele health and other government services that have moved online.

Banking services, in particular, must have connectivity to deliver reliable internet banking. Reliable mobile and internet connections also provide opportunities for Community Banks to work closely through their local communities through digital literacy programs, offering space to community organisations for meetings and events, retails pop ups and co-locations. Without it, the ability for Community Bank to explore innovative and sustainable models is affected.

### **3.2 Digital literacy**

While digital capability is growing, some customers in our community still rely on face-to-face interaction in branch. Not only are these customers coming in for more complex transactions, but many of them also rely on the Wi-Fi in branch to complete internet banking functions or use the phone services. There are also customers who have impaired abilities and require a face-to-face interaction for banking and other community services often offered in branch.

With the aging population and the rise of online fraud, digitally savvy education is greatly needed both to service those customers coming in branch and for those managing their finances remotely. Community Bank staff have had to become digitally savvy in order to properly assist our customers to get the most out of the digital services that the Bank offers. This has included getting customers onto Wi-Fi in branches so they can download the banking app or access internet banking. It's also involved teaching them about using authentication tools to set up new payees when they need to transfer funds. This skill set is increasingly important as our frontline staff need to be digital natives to best assist customers.

### **3.3 Skills shortages**

Our Community Bank network, like many regionally based businesses, is challenged by the availability of highly skilled and experienced workers. While the Regional Australia Institute (2017) found the number of Australians aged 25 to 44 moving from cities to regional areas is increasing, this migration has not kept pace with the requirement to fill regional employment shortfalls. To get a significant up-tick in regional population growth, we need to ensure regional communities are connected with both infrastructure and technology. These are also key components to attracting and retaining people in regional and rural communities. We also need to urgently address the skills shortage, which in itself, is fast becoming a national crisis.



As a social enterprise organisation employing workers from across the country, the economic impact of that workforce is significant. Further, the income tax contributed by Community Bank companies in the last three years FY19 – F21 has exceeded \$20 million. This is in addition to the approximately \$25 million contributed annually to communities across this country by Community Banks. Addressing skill shortages and enticing people to relocate the regions would have a significant impact of regional economies and improve the viability of bank branches.

### 3.4 Housing affordability and availability

Coupled with the difficulty in attracting skilled staff to regional areas, the shortage of housing options, both in the rental market and the skyrocketing cost of house prices in general is inhibiting regional migration. The knock-on effect means it's difficult to attract skilled workers in regional centres. This has been felt across the network.

### 3.5 Rigid and blanket business assumptions

While Community Banks are a business, their unique shared value model and profit-sharing mission makes them different to traditional businesses. Community Banks are taxed according to the profits they generate when in fact much of that profit is returned to the community through grants, scholarships and investments. Community Banks pay the corporate tax rate, despite being the largest social enterprise in this country. While not-for-profits and charities preferential tax treatment attached to their organisation type, Community Banks (like other social enterprises) do not.

## 4. Recommendations

- **Implement policy change** that recognises the Community Bank network as a unique social enterprise that requires support and assistance to ensure its ongoing sustainability. The value we deliver could be extended if we had greater acknowledgement and support of our contributions by state and federal government. Our network seeks a partner in government that can join us in ensuring local community organisations can self-determine their own economic and social prosperity.
- **Introduce new organisation types for social enterprises and address corporate tax inequity.** Investigate differential tax treatment for social enterprises (including Community Banks) such as a tax credit for funding non-profit entities.
- **Provide capital funding for co-location of Community Banks** with other critical services for regional and rural communities. This would engender greater collaboration, creativity and servicing solutions.
- **Invest in addressing the skilled labour shortages** in regional communities by focussing on both the pipeline for talent and incentives for skilled workers to relocate and stay.



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- **Improve connectivity** issues in regional and remote areas by expanding mobile and internet black spot initiatives. This includes greater data and technical infrastructure for community hubs.
- **Facilitate easier community-led solutions** – There are untapped opportunities and potential to leverage Community Bank capital, however all levels of government need to reduce the complexity of their grant application processes to create a framework that streamlines the leveraged funding process. If we can build this together communities will be better able to raise their own capital (through fundraising and private enterprise) and then use it to attract further investment from government, resulting in community-led and owned approaches that best meet the needs of local people. There is a growing desire for collaboration and cross-investment. Community Bank sites are keen to join forces to harness the power of the collective by sharing skills, expertise, resources, and capital, so that together they can address challenges and opportunities across regions, states or nationally.

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