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FIGHTING INEQUALITY IN AUSTRALIA

POSTBANK: FILLING A VOID, SECURING ESSENTIAL SERVICES

A DISCUSSION PAPER BY PER CAPITA
FOR THE COMMUNICATIONS, ELECTRICAL AND PLUMBING UNION OF AUSTRALIA

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About Per Capita

Per Capita is an independent public policy think tank, dedicated to fighting inequality in Australia. We work to build a new vision for Australia based on fairness, shared prosperity, community and social justice. Our research is rigorous, evidence-based and long-term in its outlook.

We consider the national challenges of the next decade rather than the next election cycle. We ask original questions and offer fresh solutions, drawing on new thinking in social science, economics and public policy.

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Executive Summary

This discussion paper makes the case for the creation of a public bank in Australia by providing Australia Post with an Authorised Deposit-taking Institution (ADI) licence, and moving in time to establishing *PostBank* as a full national savings and loan bank.

The paper examines the history of banking in Australia, the dominance of the 'big four' commercial banks, the findings of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the Banking Royal Commission), and the current state of banking services for rural and remote communities in Australia.

It looks at examples of banking services offered through postal networks in other countries, and offers suggested business models and funding options for creating a *PostBank* in Australia, before addressing some of the barriers and challenges to establish such a service.

The Banking Royal Commission found that many Australians did not have adequate access to basic financial services, and that even those who did are often ill-served by our existing financial institutions.

Just as we would not leave the creation and maintenance of our health system or our roads entirely in private hands, we should not leave our banking services, financial infrastructure and financial stability entirely in private hands.

The establishment of a postal banking service in Australia would, by operating within the existing infrastructure footprint of Australia Post outlets nation-wide, provide banking services to Australians who are currently underserviced by the existing banking sector.

With a social benefit mandate, such a bank could also improve banking services across the country by setting new standards for financial products and services that other banks will have to meet if they are to compete.

Moreover, *PostBank* could ensure the continuation of postal services in remote and regional communities, and underpin the ongoing viability of Australia Post's services across Australia.

We propose a phased approach, which would begin with the opening of basic savings and transaction accounts, followed by credit cards and personal loans, then the introduction of mortgages for owner occupied and small investor real estate followed by commercial lending with an initial focus on agricultural and other regional and rural business lending.

This phased approach would allow a steady, staged rollout of new services with profits and capital from one stage funding the rollout of the next phase, thus minimising initial capital requirements.

A government owned bank offers many benefits to Australians, including improving services for currently 'underbanked' customers, especially in rural and regional areas; improving standards across the financial services industry; and providing stability to Australia's economy in times of volatility in international financial markets.

Introduction

The big picture: why public banking?

An essential service

Like healthcare, clean water, and education, banking is an essential service; necessary to fully participate in a modern society. As such, banking services should be available to all and subsidised for those who may struggle to afford them if provided by the market. The Banking Royal Commission published its final report in February 2019. The Commission found that many Australians did not have adequate access to basic financial services and that many services made use of information asymmetry to create greater value to the banks than to the customers (Hayne, 2019).

Just like education and healthcare, there is a strong argument for the public provision of banking services that will set a standard that private banks must meet if they are not to lose their customers to the public institution. This model of leading by example reduces the need for complex regulation, monitoring and enforcement that has, so far, proven ineffective in maintaining standards and protecting customers in Australia. The argument for a public bank is particularly strong in Australia where the market power of the 'big four' banks, the Commonwealth Bank of Australia, ANZ, Westpac, and the National Australia Bank, results in a lack of competition in the Australian banking industry.

Similarly, instead of government subsidies or regulating private banks to provide services to remote communities and those with disabilities who may find access to standard banking services difficult, a public bank could provide these services directly, subsidised by the profits from its other banking services.

Essential infrastructure

Perhaps even more importantly, there are many reasons to treat banking as essential economic infrastructure. Like roads, ports, and train lines, the banking system is essential for the functioning of a modern state. At a simple level, banks provide a payment system that allows businesses and individuals to relatively effortlessly make to payments to each other and to store their money safely. At a more profound level, the banking system is responsible for meeting the demand for money (credit).

Banks do not simply accept deposits and then lend them on at a higher interest rate, as is commonly believed. Instead, they create money when they lend. This is how the supply of money in a modern economy meets the demand for money. When businesses or households wish to spend more money than they have, they typically apply for a loan with a bank. Upon the successful granting of a loan, the bank simply credits the customer's account with the funds. They don't transfer that money from somewhere, they just type it into existence. This new liability for the bank is offset by the creation of an asset, the loan. Most of the money in use in Australia is created by banks. For a more detailed explanation of the role of private banks in money creation see the Reserve Bank of Australia's Bulletin (Doherty, Jackman, & Perry, 2018) and Bank of England's Quarterly Bulletin (McLeay, Radia, & Thomas, 2014). This creation of credit, *ex nihilo*, by banks, is the fundamental underpinning financial infrastructure of a modern market-based economy.

During economic downturns and recessions, private borrowers, both individuals and businesses, can struggle to secure finance, as banks become more risk averse. The tightening of the money supply can exacerbate economic downturns, leaving government stimulus spending the most effective method for reducing the extent of the downturn and speeding up recovery. A government owned bank with a federal government guarantee, could adopt a less risk averse attitude to lending during economic downturns and, working in concert with fiscal authorities, could play a significant role in avoiding or reducing the severity of recessions.

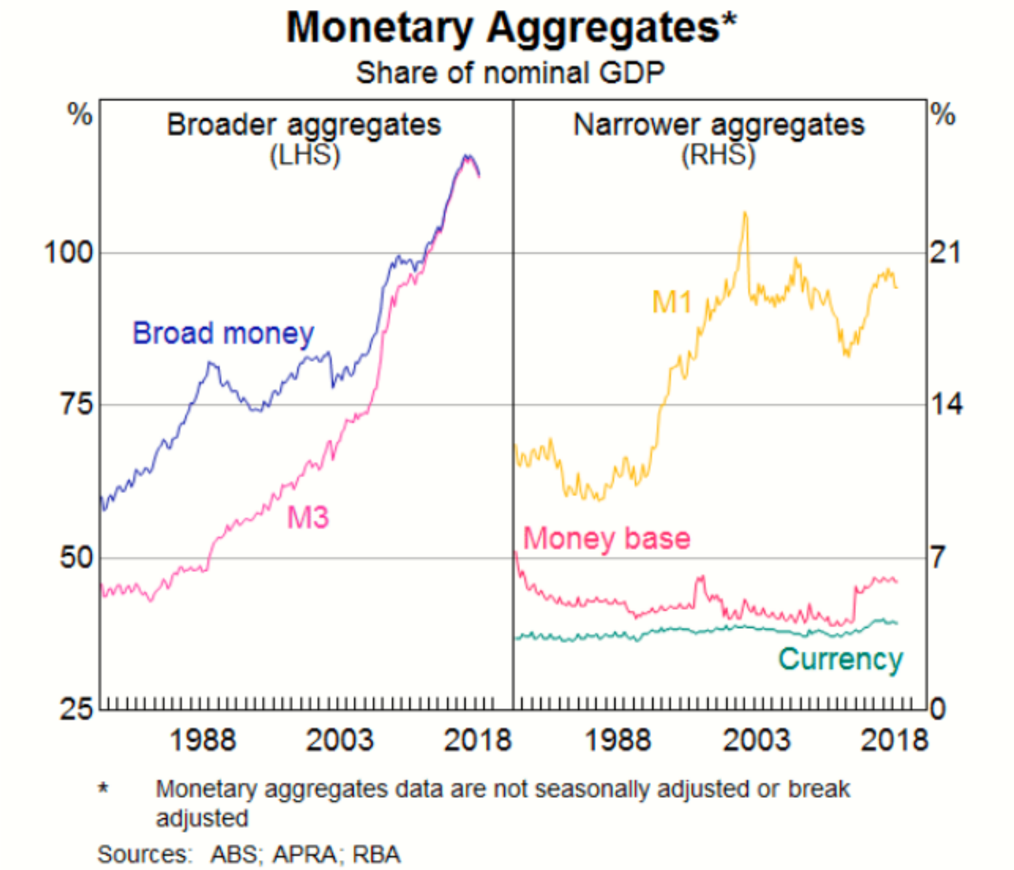

Figure 1. Types of money in the Australian economy. M1 (RHS) is bank money, created when banks make loans. Reproduced from Doherty, Jackman, & Perry, 2018.

Sustainable economic growth and stability

The evidence suggests that countries with substantial publicly owned banking are likely to economically outperform those with little or no public banking (Andrianova, Demetriades, & Shortland, 2012). This is explained by the fact that a public bank can be mandated to serve public or national interests rather than simply serving commercial interests. There is substantial scope for a public bank to accept lower financial returns or higher risks in order to achieve greater social returns. Examples include a focus on productive business lending as opposed to lending for speculative real estate investment. It would also be possible to mandate lending practices that are both financially and environmentally sustainable and to include environmental criteria in the loan approval process for commercial lending.

As we saw globally in 2008, when the banking system is in crisis, the entire economy is in crisis. In turn, the entire banking system can be put into crisis by the failure of a single large bank. It is clearly undesirable to have the entire economy dependent on the stability of individual private companies. This "too big to fail" situation creates moral hazards for the banks, who increase their risk tolerance because they know the public will bail them out rather than let them fall. This in turn makes them even more exposed and vulnerable, increasing the likelihood of a public bail out. A substantial public bank that is explicitly backed by a federal government guarantee would dramatically increase the stability of the system as a whole because it would reduce the potential domino effect of an individual bank crisis or insolvency. As author Helen Brown put it, "we do not want to leave the [economy's] on/off switch to the whims of 'the market'. Nor do we want to leave it to the machinations of self-serving private owners".

"In the world's leading countries, the finance sectors have crashed but we are still surviving because we nationalised our banking sector." Indian Finance Minister Pranab Mukherjee, 2009 (quoted in Brown, 2013)

During economic downturns private bank lending declines, not only because the demand for credit decreases but the risk appetite of the banks decreases. This exacerbates the downturn, both in size and duration. Public banks, by contrast, can act countercyclically and increase lending during downturns, particularly for projects like clean energy infrastructure and generation. This type of countercyclical lending would amplify the impact of RBA monetary policy, which is often less effective during economic downturns or recessions.

Because public banks are run by government employees who do not receive bonuses for the promotion or sale of specific products, the kinds of corrupt and unethical behaviour uncovered by the Banking Royal Commission are much less likely. This will make them more trusted than the private banks and this, in turn, will make the private banks work hard to increase public trust in them. This domino effect of improved services, behaviour and culture has the potential to transform the entire banking sector without the need for complex regulation and enforcement.

Recently we have seen the Reserve Bank of Australia (RBA) cut interest rates by 0.75% but the big four banks, on average, have only cut mortgage rates by three quarters of that amount. This has led politicians and others to accuse the banks of gouging customers and undermined the capacity of the RBA to stimulate the economy. Neither the government nor the RBA can force private banks to pass on RBA rate cuts. However, a public bank could be mandated (perhaps with a few prudential safety caveats) to pass on central bank rate cuts in full. This would create a more competitive banking environment and likely lead to lower borrowing costs for households and businesses. Of course, the costs of such a mandate must also be considered, including reduced bank profits, shareholder returns and superannuation fund growth.

Just as we would not leave the creation and maintenance of our health system or our roads entirely in private hands, we should not leave our banking services, financial infrastructure and financial stability entirely in private hands.

The banking environment in Australia

The history of public banking in Australia

The Commonwealth Bank

The story of the Commonwealth Bank of Australia (CBA) is a dramatic illustration of the enormous potential of public banking as well as a warning of the private opposition to it. It's a classic story of the right action at the right time by the right people having a profoundly positive impact on the Australian economy and on the lives of many Australians.

In response to the private banking crisis of the late nineteenth century, Labor politicians decided that a repeat of the crisis could be prevented by the establishment of a publicly owned bank that was backed by the Treasury. The legislation that created the CBA was passed in 1911 and the bank began operating in 1912 with the first branch opening in Melbourne.

Figure 2. The first Sydney branch of the Commonwealth Bank of Australia opened in January 1913. From CBA Archive.

Two of the key figures in the establishment of the CBA were its first governor, Denison Miller, and King O'Malley, both ex-bankers. They understood the money creating power of banks and believed this could be utilised for public benefit.

The bank did not require an capitalisation through an injection of funds from the government but simply opened branches and began accepting deposits. Combined with the transfer of £2,000,000 of Commonwealth Government funds held with private banks, this capital was sufficient to launch the full range of banking services.

During its early years between 1911 and 1924, the CBA had many major achievements and had a profound impact on the banking sector and the Australian economy more broadly. Understanding the power of a bank with the explicit backing of the federal government, Governor Miller financed the Australian war effort through WWI to the tune of £350 million as well as keeping the Australian agricultural sector afloat (Amos, 1940).

Almost immediately upon opening, the CBA, through the setting of its own fees and interest rates, forced the private banks of the time "to practically abolish their charges on current accounts, and to keep their charges on loans and overdrafts within reasonable limits" in order to remain competitive (Amos, 1940). The CBA also almost immediately began pro-actively lending to agricultural and food processing businesses and played a major role in sustaining and growing Australia's agricultural industries.

The move to central banking and the end of activism

At the end of the First World War, Miller made a fateful trip to London in which he explained to London bankers how he had funded the war and how he could service the debts incurred because the bank had the entire wealth of Australia behind it (Lang, 1963). According to Lang, this caused near panic among London's financial elite. While the colony may have had political independence, it was still financially controlled from London. Miller and the CBA represented a threat to this control. The response was swift, and it came in the guise of central banking.

In 1920 legislation was passed that handed over the issue of Australian notes to the CBA. This was the beginning of the creation of the CBA as Australia's central bank, a function that now belongs to the Reserve Bank of Australia. Once again, Governor Miller understood the power that comes with central banking and a government guarantee and knew that the capacity of the bank to finance investment in Australia was only limited by the country's capacity to support that activity. In other words, finance is only limited by the productive capacity of the real economy, not the other way around.

> *"The whole of the resources of Australia are at the back of this bank, and so strong as this continent is, so strong is the Commonwealth Bank. Whatever the Australian people can intelligently conceive in their minds and will loyally support, that can be done."*
> *Denison Miller, first governor of the Commonwealth Bank of Australia, 1921.*

The expansion of the CBA from a publicly owned commercial bank to a central bank was also the beginning of the downfall of its capacity to innovate and discipline the banking sector through leadership. The board of directors formed in 1920 only to oversee the note issuing function of the bank was, after the death of Governor Miller in 1923, expanded into the Commonwealth Bank directorate in 1924.

This new directorate was composed primarily of banking industry insiders, some of whom were nominated directly by the private banks. They almost immediately reigned in the CBA's early activist and community benefit role within the sector through a series of reforms that brought it into line with the private banks, instead of forcing them to come into line with it. In effect, the private banks had neutralised the threat to their profits from a public bank that was genuinely acting in the public interest. As an example, within a year the interest and other charges paid by the agriculture industry to the CBA more than doubled from £3 million to £7 million. The Labor party opposition at the time opposed the *Commonwealth Bank Bill 1924* and accused the government of trying to strangle the public bank and prevent its expansion (Hansard, 1924) but the Bill passed and the CBA's rapid expansion came to a temporary standstill.

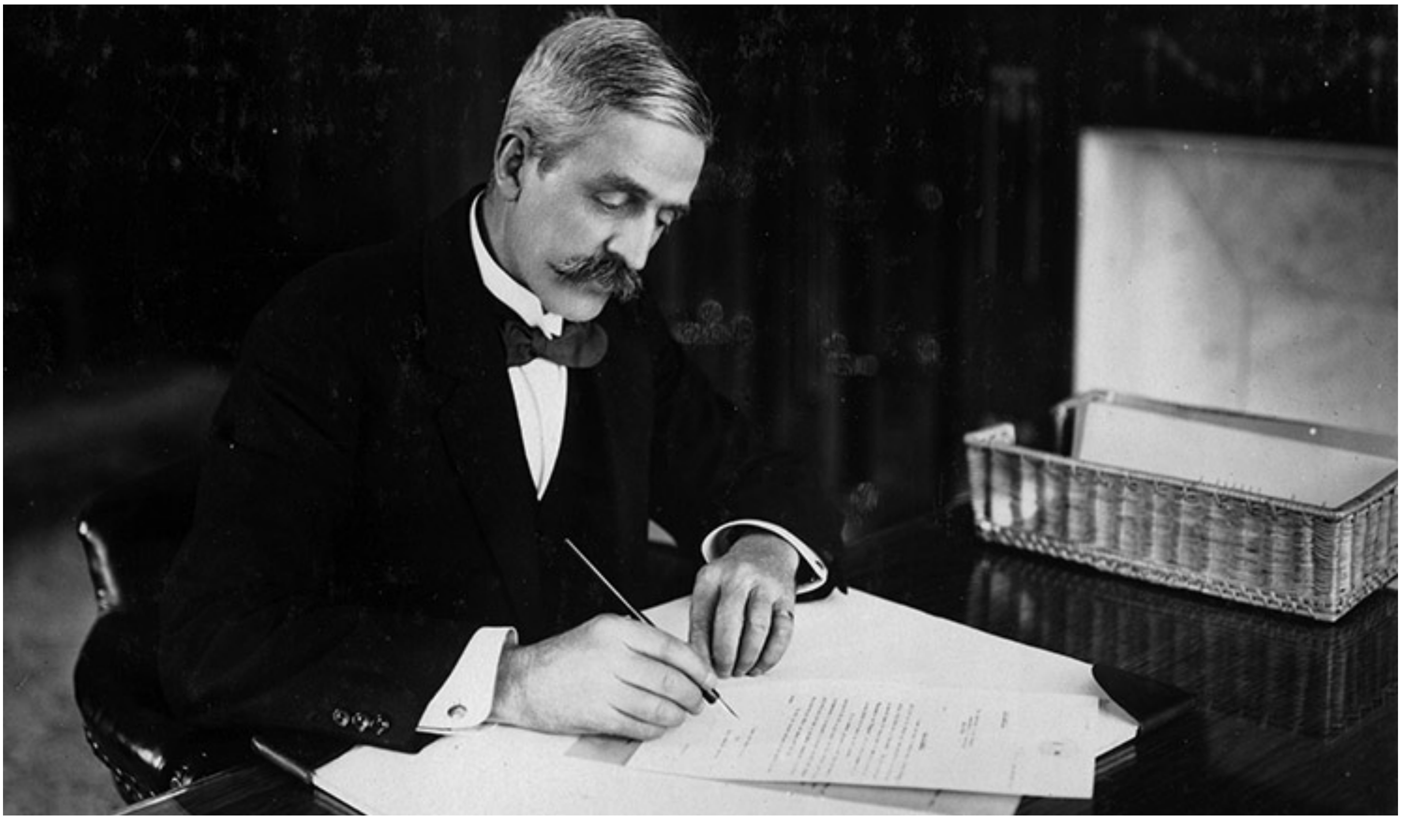

Figure 3. Denison Samuel King Miller, the first governor of the Commonwealth Bank of Australia. Governor from 1911 until his death in 1923. (*Image from* CommBank web site).

The effective control of the CBA by private bankers contributed to a foreign debt crisis in 1930 that resulted in the government accepting a crippling set of demands made by The Bank of England to assist with foreign debt payments.

> *"To-day, you may behold a continent on its knees. It has bowed to [The Bank of England's] dictation. It will cut down its imports. It will lay the axe to all its expenditure on social services, including education. It will reduce the salaries of its civil servants. It will cut wages all round. It is prepared for an increase in unemployment from the present 18% to a possible 30%. It is kissing the rod that chastened it… And so Australia is in the banker's hands." Journalist H. N. Brailsford quoted in Hansard* (Parliament of Australia, 1930)

During World War Two the CBA was given emergency powers to assist in funding the war effort. These powers, in some respects, resembled how Governor Miller, ran the bank for its first twelve years and through the First World War, issuing as much credit as was needed. In the late forties, in the aftermath of the war, the CBA used these powers to once again rapidly expand, opening hundreds of new branches throughout the country and financing the rapid expansion of the Australian economy in what became known as the post-war boom. Despite massive federal government debts incurred during the war, the CBA continued to assist in the financing of ongoing government deficits which resulted in strong economic growth, very low unemployment, and rapidly falling government debt to GDP ratios.

The CBA continued to operate two separate functions, as a central bank and as a government owned commercial bank, until the formation of the Reserve Bank of Australia in 1959. The CBA then continued as a government owned savings and loans bank and continued to discipline the private banks by setting a minimum standard of service and charges until it was sold to private investors by the Keating government, a process that began in 1991 and was completed in 1996. Following privatisation the predictable closure of less profitable branches, ATMs, and other services ensued. Access to banking services declined in remote and regional Australia and the CBA became just another private bank. So ended, in many ways a very successful story of public banking in Australia.

Detailed treatises on the rise and fall of the CBA as a people's bank can be found in *The Story of the Commonwealth Bank*, (Amos, 1940) and in Jack Lang's book *The Great Bust: the Depression of the Thirties* (Lang, 1963). The key lessons from the history of the Commonwealth Bank are threefold: the power and capacity of a public bank run in the public interest to both discipline the private banking system and to further Australia's economic and social interests; the importance of individual leadership in reform, and the vulnerability this creates; and, finally, the capture of the public bank by the private banking sector acting to protect their power and associated profits. This history is critically important to any discussion about the creation of a new publicly owned bank in Australia.

State banks

Throughout Australia's banking history many of the states and territories have seen the rise and fall (or merge) of their own state government-run banks.

In Tasmania, a number of small-scale commercial banks proliferated in the early years after settlement. Many of these banks failed or were absorbed into larger banks over the course of the nineteenth century, but the Launceston Savings Bank and the Hobart Savings Bank both survived well into the twentieth. In the mid-1980s, the Tasmanian Government attempted to merge these two trustee savings banks into a single state bank. The merger failed, but the Launceston Savings Bank merged with the Perpetual Executors Building Society to form the Tasmania Bank, which faced crisis in 1989 and was subsequently merged with the Hobart Savings Bank using state government funds to form the Trust Bank of Tasmania.[1]

The Trust Bank was "viewed by Tasmanians as a very important financial institution" and held its place in the Tasmanian community as a backer of local business and a community sponsor.[2] Unable to compete in the Australian banking market of the 1990s, the Trust Bank was acquired by Colonial Limited in 1999, continuing as Colonial Trust Bank, but ultimately taken over by the Commonwealth Bank when it merged with Colonial in 2000. During the initial takeover by Colonial, the Labor state government promised no job losses, no branch closures, and a "net benefit" for Tasmanians from its sale of the bank, and on those grounds called on the federal government to block the merger with Commonwealth, which would result in 300 jobs lost and 17 branches closed in Tasmania.[3]

The Queensland Government Savings Bank was established in 1861 by one of the earliest pieces of legislation passed by the government of the new colony of Queensland. It was set up to encourage small deposit saving by working people, and grew over the latter half of the nineteenth century to absorb local savings banks in Moreton, Ipswich, and Toowoomba. When the federal government's Commonwealth Bank opened branches in Queensland from 1912 it also merged the state postal services into the federal system, quickly replacing Queensland's state bank postal agencies with its own (Skully, 1985). The Queensland Government Savings Bank merged with the Commonwealth Bank in 1920.

[1] https://www.utas.edu.au/library/companion_to_tasmanian_history/B/Banking%20and%20Finance.htm
[2] https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;db=CHAMBER;id=chamber/hansards/2000-06-28/0122;query=Id:%22chamber/hansards/2000-06-28/0000%22
[3] https://www.greenleft.org.au/content/bank-merger-will-hit-tasmania-hard

The Government Bank of New South Wales was established in 1871 and experienced sustained growth and expansion over sixty years; by 1929, its Board of Commissioners proclaimed it the second largest savings bank in the British Empire (Polden, 1971). Just two years later, the Bank would collapse during the Great Depression and merge with the federal Commonwealth Bank. In 1933, the New South Wales government established the Rural Bank of New South Wales, which primarily lent to farmers until 1982 when its mandate was expanded to a standard commercial bank and its name changed to the State Bank of New South Wales. The Bank was 'corporatised' in 1990 and sold to Colonial in 1994, and also ultimately taken over by the private Commonwealth Bank in 2000.

In Victoria, the Savings Bank of Port Philip was founded in 1842 as a government-control savings bank, merging with other independent savings banks over time to form the State Savings Bank of Victoria in 1912. Like many other state banks, it was renamed in the 1980s to the State Bank of Victoria before collapsing in 1990 and subsequently being sold to the private Commonwealth Bank.

Western Australia had a Post Office Savings Bank from 1863, which became the Government Savings Bank of Western Australia in 1906. As in New South Wales, the bank collapsed during the Great Depression and was incorporated into the federal Commonwealth Bank in 1931. However the Agricultural Bank of Western Australia, established by the state government in 1895, continued until 1945 when it was renamed the Rural and Industries Bank of Western Australia, taking on a broader mandate as had happened in New South Wales. In 1994 it was renamed again in preparation for privatisation, to BankWest, and then sold initially to the Bank of Scotland in 1995, which then merged with the Halifax Group to form HBOS in 2001 and sold Bankwest to the private Commonwealth Bank during the global financial crisis in 2008.

The history of state government-run banks in Australia is one of well-established banks that were seen as local institutions and were able to back clients and customers who struggled to find finance elsewhere, like local businesses and farmers. At the same time, it is a history of small scale banks unable to compete in a national market or to weather the storm of financial crises; and finally, a history of a privatisation narrative in the 1990s that none of the state-run banks could survive.

The dominance of the 'big four'

Today the 'big four' banks – ANZ, the Commonwealth Bank, NAB, and Westpac – unquestionably dominate the Australian banking industry, which is one of the most concentrated and profitable banking industries in the world. Between them, the 'big four' own 76.4% of total banking assets in Australia,[4] and account for 82% of all bank lending and 78% of all bank deposits.[5] These combined assets total more than $3.6 trillion – more than twice the value of Australia's total annual economic output.[6] The 'big four' are more profitable than comparable banks anywhere else in the world, with a profit margin of 36.4% and net

[4] https://financialservices.royalcommission.gov.au/publications/Documents/some-features-of-the-australian-banking-industry-background-paper-1.pdf, Chart 3
[5] https://www.tai.org.au/sites/default/files/IP%204%20Money%20and%20Power_4.pdf, page 4
[6] https://www.abc.net.au/news/2019-02-01/how-did-the-big-four-banks-become-so-dominant/10767994

profit after tax of $7.8 billion in the June 2017 quarter.[7] Their profits equate to 2.9% of Australia's GDP, [8] meaning that of every $100 spent in Australia, nearly $3 ends up as underlying profit for these four banks.[9]

As we have seen, early Australian governments were already engaged in efforts to create competition between banks, establishing various state banks and, after Federation, the federal government owned Commonwealth Bank in 1911. The argument for a national bank at that time was "based on the proposition that the existing banks were avaricious and incompetent" and that their behaviour had contributed to the banking crisis of the 1890s (Gollan, 1968). At that time, it was thought that a government-run bank could act as a socially responsible competitor, setting the floor for banking standards.

As the twentieth century era of bank regulation progressed, the banks lost share of the market to smaller competitors like building societies and credit unions; by the late 1970s their share of the credit market had shrunk to 50%.[10] This raised concerns that Australian banks – almost all of which were Australian-owned – were losing business to non-bank financial intermediaries that could not be regulated in the same way and which were predominantly "foreign-owned" (Whitlam, 1985). A school of thought that the direct regulation of the banking system was no longer working began to take hold (Martin, 1999). The Cambell Inquiry of 1979 laid the groundwork for the process of financial deregulation that took place under the Hawke/Keating government in the 1980s.

Unregulated, the banks once again began to move towards a more dominant share of the credit market, increasing their share steadily and passing a 90% share in 2010.[11] At the same time, the 'big four' banks consolidated and increased their share of the banking market, from 67% of all lending in 1991 to 82% in 2012.[12] As outlined above, in the 1990s the Commonwealth Bank was privatised and joined the ranks of the private 'big four' banks merging with or acquiring state government-run and smaller private banks.

As the 'big four' consolidated their position throughout the 1990s, concerns about the concentrated nature of the Australian banking industry led to the articulation of an unwritten 'four pillars' policy to reject any further merger or acquisition between the four major banks. However, the 'four pillars' policy has not prevented 'common ownership' of the banks, and an analysis carried out by *The Australia Institute* found that at least 53% of shares in each of the 'big four' banks is owned by shareholders that are among the top 12 shareholders in *all* the 'big four' banks *as well as* the second-tier 'big three' regional banks: Bendigo, Suncorp, and Bank of Queensland.[13]

Over the course of the 2000s, and influenced in no small part by the banks' role in the global financial crisis, a narrative began to form of 'bad behaviour' by the 'big four' banks.[14] A series of inquiries into the

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7 https://financialservices.royalcommission.gov.au/publications/Documents/some-features-of-the-australian-banking-industry-background-paper-1.pdf, page 12

8 https://www.tai.org.au/content/australias-banks-most-profitable-world

9 https://www.tai.org.au/sites/default/files/IP%204%20Money%20and%20Power_4.pdf, page iv

10 https://www.tai.org.au/sites/default/files/TB%2015%20The%20rise%20and%20rise%20of%20the%20big%20banks_4.pdf, Figure 2

11 Ibid.

12 Ibid, Table 1

13 https://www.tai.org.au/sites/default/files/TB%2015%20The%20rise%20and%20rise%20of%20the%20big%20banks_4.pdf, page 2

14 https://theconversation.com/a-history-of-failed-reform-why-australia-needs-a-banking-royal-commission-64803

financial services system failed to fully address the sector's growing concentration or continued cases of misconduct[15] and ultimately, the Banking Royal Commission was called.

The Banking Royal Commission

The final report of the Banking Royal Commission (the Hayne report) made 76 recommendations addressing key aspects of the banking, superannuation, financial advice, and rural lending industries.[16] The Hayne report also made 24 referrals to the banking and financial services regulators ASIC and APRA for possible criminal or civil action.

The Commission uncovered significant problems with the way financial products were being sold, using practices such as 'conflicting remuneration' (being paid by a client to advise them and also being paid by a bank or financial service to provide them the client) and heavy-handed unsolicited selling of insurance products. It recommended banning practices like these and introducing a compensation scheme for clients affected.

The Commission also found that rural and regional customers, especially farmers and other agricultural producers, were having particular issues with the banks. For example, the Commission reported that banks were charging default interest on loans secured by farmland in areas subject to drought or natural disasters. Justice Hayne made a series of recommendations in this space including establishing a national scheme for farm debt mediation, amending the banking code of conduct so that people in remote areas or without English as a first language can access banking services fairly, and ensuring that managers of distressed farm loans are always experienced agricultural bankers.

The regulators ASIC and APRA are to be retained but the Commission recommended introducing ga new independent authority to oversee them and ensure they are discharging their responsibilities, particularly ASIC which will be required to change its approach to enforcement, prosecuting more often rather than settling out of court.

Just over a year on from the Hayne report, the extent to which its recommendations will be implemented or the banking and financial services sector reformed is not yet clear. There are approximately 40 pieces of Commission-related legislation on the Morrison government's parliamentary agenda for 2020 and it remains to be seen how this legislation will be approached. Treasurer Josh Frydenberg has already abandoned the recommendation to ban commissions for mortgage brokers, for example, and the banking industry has initiated a "quite robust" pushback against more regulation.[17]

Banking services for rural and regional Australia

About 28% of the Australian population live in regional or remote areas: nearly 7 million people. The Banking Royal Commission found that banks have been steadily closing branches in regional and remote areas for some years, and that as remoteness increases, access to a bank branch, a face-to-face banking

[15] https://theconversation.com/a-history-of-failed-reform-why-australia-needs-a-banking-royal-commission-64803
[16] https://www.royalcommission.gov.au/sites/default/files/2019-02/fsrc-volume-1-final-report.pdf
[17] https://www.theguardian.com/australia-news/2020/feb/01/banking-royal-commission-one-year-on-optimism-over-changes-but-banks-fight-back

service, or an ATM decreases.[18] The situation is particularly acute in remote or very remote areas. This lack of access to financial products and services can be compounded by the fact that mainstream products designed for bank users living major cities may not be suitable for users in regional and remote areas. The Banking Royal Commission also found that the cost of financial products and services can be relatively high in regional and remote areas, compared to in urban areas.[19]

The Australian Bankers' Association (ABA) attributes the closure of bank branches across Australia to a consumer trend away from using face-to-face banking services and towards using electronic, online, and other digital banking services.[20] However, responding to this trend by closing bank branches can disenfranchise regional and rural bank users who may also have difficulties accessing the internet and other digital services they need to take advantage of online banking and electronic transactions. There is a significant "digital inclusion gap" in Australia and that people living in country areas are still significantly less likely to be able to have full internet access.[21]

The Australian Treasury ATM Taskforce has also noted that people living in remote areas spend "much more in aggregate on ATM fees than their urban counterpart", reflecting their lack of access to bank branches or to affiliatd ATMs.[22] The Taskforce found that typically, remote consumers are only have access to one local ATM and therefore "have no alternative to paying direct fees for balance enquiries and cash withdrawals."[23] ATM withdrawal limits also tend to be more enforced in regional and remote areas, which can be problematic precisely because the relative distance from goods and services can mean people need more cash on hand.

The Banking Royal Commission collected evidence from the Treasury and the Centre for Social Inclusion that shows people who are geographically financially excluded can be at risk of reliance on "high-cost, short-term, small amount lending" due to a lack of financial options and services, including financial products that are arguably predatory or exploitative.[24]

Both the Banking Royal Commission and the ABA identify that in locations where no bank branch is available, particularly regional and remote areas, the existing Bank@Post service provided by Australia Post was a useful alternative.[25] The number of Bank@Post access points has increased as the number of bank branches has decreased.

Banking services for Aboriginal and Torres Strait Islander people in remote Australia

The geographic financial exclusion experienced by regional and remote Australians is felt even more keenly by Aboriginal and Torres Strait Islander Australians, who are more likely to live more remotely. Only 2% of Australia's ATMs are located in locations defined as remote or very remote,[26] under-serving the 18%

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[18] https://financialservices.royalcommission.gov.au/publications/Documents/fsrc-paper-18.pdf
[19] Ibid, page 15
[20] Australian Bankers' Association, Industry Standards: ABA's Branch Closure Protocol, available at https://www.ausbanking.org.au/industry-standards
[21] https://digitalinclusionindex.org.au/wp-content/uploads/2016/08/Australian-Digital-Inclusion-Index-2017.pdf
[22] https://treasury.gov.au/sites/default/files/2019-03/atm_indigenous.pdf, page 3
[23] Ibid.
[24] https://financialservices.royalcommission.gov.au/publications/Documents/fsrc-paper-18.pdf, page 21
[25] https://financialservices.royalcommission.gov.au/publications/Documents/fsrc-paper-18.pdf, page 11, 17
[26] https://financialservices.royalcommission.gov.au/publications/Documents/fsrc-paper-18.pdf, Chart 2

of Aboriginal and Torres Strait Islander people live in remote or very remote locations.[27] Aboriginal and Torres Strait Islander Australians face other barriers to equal access to banking services as well, such as a lack of accepted identification documents (17.9% of Aboriginal and Torres Strait Islander people who are severely excluded from access to mainstream financial services had difficulties opening a bank account because they could not provide the types of identification documents they were asked for, compared to 8.7% of non-Indigenous people), unemployment and lower incomes, (leading to lower superannuation balance and higher likelihood of having to rely on fringe credit rather than mainstream lending services) lower financial literacy (leading to higher likelihood of being sold inappropriate insurance products and lower likelihood of being able to access credit products that are appropriate), and non-traditional family structures (leading to poorer access to life insurance and superannuation benefits).[28]

[27] https://financialservices.royalcommission.gov.au/publications/Documents/aboriginal-and-torres-strait-islander-consumers-of-financial-products-background-paper-19.pdf, Chart 4
[28] https://financialservices.royalcommission.gov.au/publications/Documents/aboriginal-and-torres-strait-islander-consumers-of-financial-products-background-paper-19.pdf, Table 1

International examples of post office banking

Successful post office banks have run in many countries over the last 200 years. However, over the last fifty years many have been victims of their own success and been privatised as part of economic rationalist trends around the world towards smaller governments and fewer government run enterprises. Remaining or re-established successful postal banks include Post Office Money in the UK, Kiwibank in New Zealand, Banque Postal in France, Post-Finance in Switzerland and Banco-Posta in Italy.

Country	Service	Number of customers	No. of employees	Profits of postal financial services	Sales	Profits of group	Fin/services % of total profits/sales
United Kingdom	Post Office Money [15]		80-100 at HQ		£301 million out of £940 million	UK PO does not publish profits by sector	32%
New Zealand	Kiwi-bank[16]	800,000	1,000	$122 million NZ before write down of IT and then $58 million		$27 million NZ[17]	214%
France	Banque Postale [18]	10.7 million	2,541	538 million € before tax 477 million € after tax		975 million € (before tax)[19]	55%
Swit-zerland	Post-Finance [20]	3 million	3,599	542 million CHF[21]		558 million CHF[22]	97%
Italy	Banco-Posta[23]	9.55 million users 5.8 m depositors[24]	1,824	813 million €		622 m. €	144%

Sources: All figures are from the 2016 annual reports of the Post Office Groups and Postal Banks

Table 1. Major successful postal banks. Table reproduced from (Anderson, 2018).

New Zealand

Like Australia, New Zealand has a long and chequered history with public banking. New Zealand's Kiwibank is probably the most relevant international example for the Australian context because of the similarities of the private banking environment (mostly the same dominant banks) and that it was relatively recently established after a period with no public banking.

Post Office Savings Bank

The Post Office Savings Bank in New Zealand was first established in 1867 primarily to provide savings and banking services to small investors and to provide loans to government. The

The Post Office Savings Bank operated successfully until 1987 when it was split from the New Zealand Post Office and renamed PostBank. It existed briefly as PostBank before being sold to ANZ in 1989 and being subsumed into the ANZ brand during the 1990s.

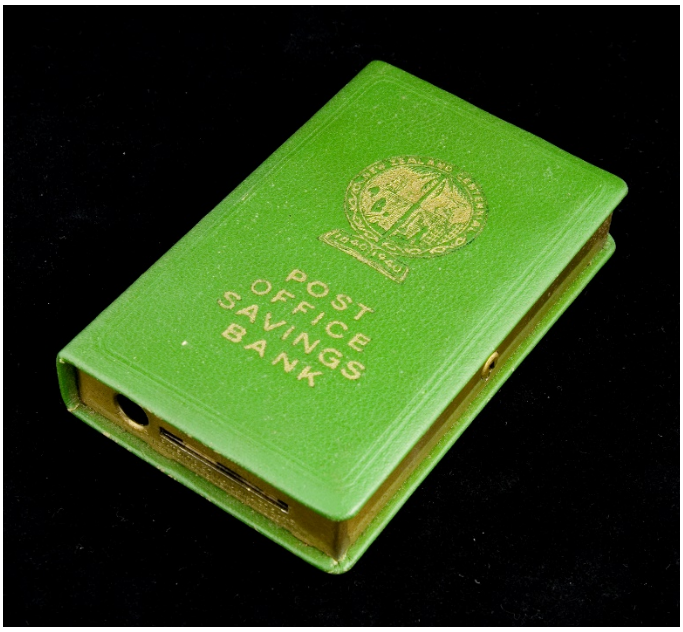

Figure 4. Post Office Savings Bank, circa 1939-1940, Birmingham, by Pearson Page Dewsbury Co. Ltd. Purchased 1996 with New Zealand Lottery Grants Board funds. CC BY-NC-ND 4.0. Te Papa (GH004866)

Kiwibank

The establishment of Kiwibank was championed by New Zealand politician Jim Anderton, whose dogged pursuit of the idea and ultimate success is captured in this anecdote from the New Zealand Herald (New Zealand Herald, 2011):

> *"Mr Anderton delighted Parliament with a new story of the negotiations with Labour - and the nudge given by deputy leader Annette King to then Finance Minister Michael Cullen. "Annette King finally turned to Michael Cullen after three hours of this and said these immortal words: 'Michael, Jim's beaten back every argument against the bank we've ever put up, for God's sake give him the bloody bank.' And Michael Cullen said: 'Oh, all right then."'*

Just like the story of the establishment of the Commonwealth Bank in Australia, the role of a single determined individual, in the right place at the right time, was pivotal in the formation of Kiwibank.

Prior to the establishment of Kiwibank, New Zealand's banking industry was dominated by Australia's big four banks, the Commonwealth Bank, Westpac, ANZ and National Australia Bank. Kiwibank formally launched in 2002 with 211 branches, mostly in post offices. By 2008, KPMG concluded that banking fees and charges in New Zealand were lower, at least partly as a result of the competition provided by Kiwibank (Milner, 2008).

Thanks to a "move your money" public advertising campaign Kiwibank had more than 500,000 customers within five years (out of a population of 4 million) and quickly became one of New Zealand's most trusted banks and remains at or near the top of customer satisfaction surveys to this day (Roy Morgan, 2019). Kiwibank posted its first profit only three years after opening its first branches.

Japan

Japan Post Bank

Like the early history of the Commonwealth Bank of Australia, The Japanese Post Bank (JPB) is an instructive example of what can be achieved for the people, the government and the economy with a well utilised public bank. Established in 1874 but really hitting its strides as a public bank after the Second World War, by 1990 it was the largest financial institution in the world (Calder, 1990). Despite paying lower interest rates than Japan's private banks, the JPB attracted Japanese savers because they considered it safer (Brown, 2013). Part of the reason for its establishment was to generate credit domestically and in order to avoid the foreign indebtedness experienced by China and the Ottoman empire at the time (Scher, 2001). This was entirely successful and the JPB went on to become such a prominent source of finance for public expenditure that it was sometimes referred to as 'Japan's second budget'. Credit created by the JPB was used to fund local government expenditure and expenditure of numerous government owned enterprises and was managed through the Ministry of Finance (Brown, 2013).

This public financing, which did not require increased taxation, was part of the formula that brought Japan rapidly from a defeated and severely damaged country after the Second World War to an economic powerhouse and the third largest economy in the world by the late twentieth century.

As part of the almost global move away from public provision of services and the privatisation of public companies, there has been intense pressure to privatise the Japan Post and with it the bank. This pressure was resisted for decades but the reconstruction costs from the 2011 tsunami finally provided privatisation advocates with the ammunition they needed to defeat those holding onto government ownership. Either no longer understood or wilfully ignored was the possibility of the JBP creating the necessary bank credit and thus keeping the bank in private hands and achieving the necessary reconstruction. The capacity of the bank to do this, demonstrated through its past activity, demonstrates that the privatisation is ideologically driven, not economically driven. The process of privatisation is now well underway and it is likely that the Japanese government will become a minority shareholder in 2020 from its current 57% shareholding.

Japan's experience with a publicly owned bank that supplied finance for public expenditure has now shaped the Japanese government's relationship with their central bank, the Bank of Japan, which currently owns about 30% of the Japanese government's debt. The government owns the bank of Japan which means, in effect it owes this money to itself. Both the current situation with the Band of Japan and the past funding of public expenditure by the JPB demonstrate the capacity of publicly owned banks to play a defining role in a nation's economic and social outcomes.

Canada: the campaign for a return to postal banking

Canada Post operated as a bank for 100 years, from 1868 to 1968, providing banking services throughout Canada's provinces. Recently the Canadian Union of Postal Workers (CUPW) has been campaigning for a return to postal banking in Canada for many of the same reasons outlined above, including the inadequate access to banking services for many regional and remote Canadians, particularly Indigenous Canadians, the need to improve the competitiveness of banking services, and the potential broader social benefits from publicly owned banking (Anderson, 2018). This campaign is very well developed with several reports and discussion papers and promotional videos that have been used in public advertising

(Canadian Union of Postal Workers, 2019). Unlike the situation in Australia and New Zealand (prior to the establishment of Kiwibank), there are already publicly owned provincial banks in Canada but, despite this, there are still strong arguments for a postal bank due to the national coverage and capacity to provide services to those currently underbanked.

The campaign and thinking regarding postal banking in Canada is far more advanced than in Australia and such a campaign in Australia could benefit substantially from international collaboration between the two countries relevant trade unions and other interest groups.

Figure 5. A promotional image as part of the campaign to establish postal banking in Canada.

Australia Post as a bank: the opportunities, risks and benefits

Why Australia Post?

Not a new idea

In 2009, six prominent economists signed an open letter calling for a financial systems inquiry (it took nine years, but they eventually got what they asked for in the Banking Royal Commission). In that letter they also asked:

> *Should citizens who feel unsure and unqualified to shop wisely in our financial markets be able to access basic savings, payments, and wealth management products that have been vouchsafed by governments as being safe and professionally managed (eg, why can't Australians invest with the Future Fund)? In this regard, is there a role for a publicly-owned entity, akin to KiwiBank in New Zealand, to offer essential services in Australia's finance sector that leverage off unique government infrastructure (eg, Australia Post, the tax system, and the government bond market)* (Gans, 2009)

In 2013 the Communication Workers Union made a submission the National Commission of Audit recommending the establishment of postal banking services as a way to ensure the ongoing viability of Australia Post (Hutchings, 2014) and there has been ongoing public speculation that Australia Post is seriously considering the move (West, 2018).

Existing retail presence

Banking in Australia is notoriously uncompetitive with market dominance of the big four banks a serious concern for the quality, cost and coverage of banking services (Hayne, 2019). The main reason for this lack of competiveness is the very high cost of entry for new businesses and the biggest cost is the establishment of a branch network. In 2018, Australia Post maintained 4,356 post offices, 2,538 of which were in rural and regional areas - 58% of the retail network (Australia Post, 2018). Expanding these retail outlets to become bank branches would go a long way to addressing concerns raised about regional and remote banking in the Banking Royal Commission's interim and final reports (Hayne, 2018a, 2019).

Providing financial services to those currently underserved or excluded

A public bank with a social benefit mandate, operated from post offices, has enormous potential to improve financial inclusion in Australia. Despite there being around half as many post offices as there are bank branches in Australia, post offices are far more equitably distributed (Delaney, O'Hara, & Finlay, 2019). Many regional and remote communities lack bank branches or ATMs and the number of bank branches in Australia has been in slow decline for many years (Delaney et al., 2019; Hayne, 2018b; Parliamentary Joint Committee on Corporations and Financial Services, 2004). However, many communities not served by bank branches or other ADIs do have post offices (see Figure 6). International experiences have shown that postal banking services do indeed improve financial inclusion (Anson, Berthaud, Klapper, & Singer, 2013).

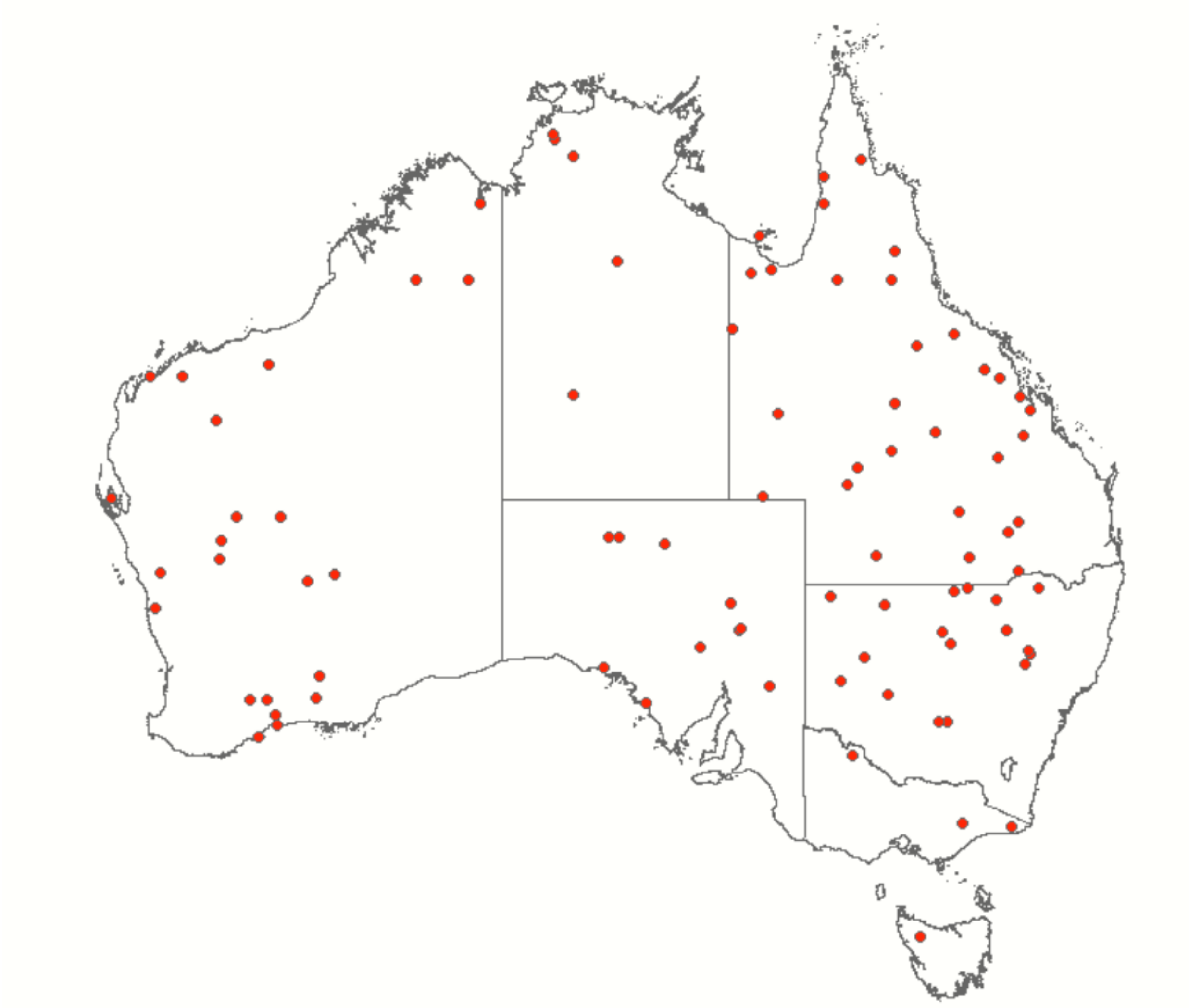

Figure 6. Australia Post outlets that are more than 50km from the nearest bank branch. Reproduced from (Delaney et al., 2019)

PostBank could not only provide access to banking services in remote indigenous communities but could also provide teams of specialist indigenous financial literacy educators and interpreters. Such a service could have substantial flow-on effects to the social and economic health of those communities.

Improve banking services across the country by leading best practice

As a government owned entity, a *PostBank* could make use of federal government sovereign guarantee to access wholesale funds at low cost, or even receive funds from the federal government as investment. This would allow the *PostBank* to offer competitive rates on loans and deposits, which would in turn, incentivise other banks to offer better products to customers. This is precisely what happened almost immediately after the Commonwealth Bank began offering low cost banking services in 1912. The other banks almost immediately lowered their fees and other charges in order to compete for business with the new publicly owned bank (Amos, 1940).

While it may not be financially viable to maintain bank branches in many remote and regional communities, the sharing of bricks and mortar infrastructure between post offices and *PostBank* combined with a federal treasury financial guarantee would reduce *PostBank's* operational costs. These reduced costs, combined with a social benefit mandate, would enable *PostBank* to subsidise banking services for those who are currently underbanked and unlikely to be served by the existing banks and other ADIs.

PostBank would help to keep Australia Post's other services viable

Traditional postal services are in decline due largely to electronic communications. Despite the fact that parcel delivery has risen substantially and Australia Post remains profitable, the business model of Australia Post is likely to continue to see disruption and uncertainty.

Despite operating under a social mandate, rather than a purely profit-seeking mandate, *PostBank* would likely remain highly profitable and create new revenue for Australia Post and the federal government (assuming it remains under federal government ownership). By sharing branch operating costs with Australia Post, *PostBank* would be effectively subsidising postal services in remote and regional Australia and would help prevent closure of post offices. If necessary, profit from the bank could be directly used to subsidise post office operation in order to ensure equitable public access to both banking and postal services. This has long been the case for Japan Post, which is mandated to provide postal services across the country even though these run at a loss. Japan's postal services are subsidised by the profits of the Japanese Post Bank.

Revitalising regional communities

State and Commonwealth governments are advocating for decentralisation, in part to take population and infrastructure pressure off our major cities. As a government owned bank, *PostBank* could play a pivotal role in financing proactive sustainable regional development that will assist decentralisation.

The Banking Royal Commission found that farmers have been poorly served by the current banking system with poor outcomes across the agricultural sector and rural and regional Australia (Weller & Argent, 2018). Indeed, government policy regarding financial deregulation and the abolition of 'single desks' that protected farmers from many market fluctuations have effectively financialised the farming industry largely to the detriment of farmers (Larder, Sippel, & Argent, 2018).

PostBank could lead the way when it comes to reforming lending practices to agricultural businesses as recommended by the Banking Royal Commission (Hayne, 2018a) by building specific expertise in regional banking and understanding of agricultural businesses. There is also great potential for a publicly owned bank with a social mandate to fund rural and regional infrastructure and regional development (Figart, 2017), reinvigorating our regions and reducing population pressure on capital cities. The Banking Royal Commission emphasised the social responsibility that banks have to rural and regional communities, but this often conflicts with their higher order responsibility to shareholders. Private banks are not driven by a social mandate and holding to a social mandate involves complex monitoring and regulation. *PostBank*, by contrast, if it was appropriately constituted and governed, would have no such conflict of interest.

Financing community transition to a post-carbon economy

By aligning *PostBank's* social mandate with regenerative agriculture practices, sustainable development and Australia's transition to a low carbon economy, *PostBank* could play a pivotal role in diversifying and future proofing the Australian economy in a banking environment that would otherwise have been too risk averse, or too focussed on lending for asset speculation. The low wholesale funding costs available as a result of a government guarantee would enable *PostBank* to endure a higher risk profile with their lending practices while remaining competitive and profitable.

Federal government loan programs could be consolidated into departments of *PostBank*. These could include the Australian Renewable Energy Agency, the Clean Energy Finance Corporation, and the Pension Loans Scheme

There are many potential innovative financial products that *PostBank* could offer over time. These might include infrastructure bonds that would allow superannuation funds to invest in Australian infrastructure, something that fund managers have expressed frustration about. The combination of a federal government guarantee with a public benefit mandate would make *PostBank* a natural destination for ethical investment, providing extra revenue for the bank and much needed funds for social and environmental programs in Australia.

The perfect moment

The fallout from the Banking Royal Commission is yet to really be understood but the challenge of reigning in the excesses of the private banking system is immense. The establishment of a public bank is certainly not a panacea for these problems, but it could make a major contribution to the improvement of banking services across the industry through providing a service standard benchmark. The combination of Australia Post's physical outlets and post office staff, who already process financial transactions throughout Australia, makes Australia Post the ideal candidate for a new, government owned bank that could be up and running relatively quickly. The establishment costs for an Australia *PostBank* would be very low compared to the establishment of a new banking business and represents the perfect opportunity to address many of the shortcomings in the Australian banking system that were brought to light through the Banking Royal Commission.

Business models for a PostBank

We recommend that whatever specific business model is adopted that the new postal banking service be constituted as a wholly owned subsidiary of Australia Post. This maximises the likelihood that the Australia Post and the bank remain financially connected and the bank provides a mechanism through which postal services can be subsidised for regional and remote communities. This suggestion does not preclude state and territory governments acquiring a share of Australia Post and, along with it, a share of *PostBank* as part of the capitalisation of the new bank (see *Who will pay for it?* below).

Simple deposit taking institution

The simplest beginning model for a *PostBank* is purely as a deposit taking institution, without loan services. The business model here would be the establishment of a bank that offers retail accounts and standard banking facilities such as EFTPOS, online payments etc. This is a relatively straightforward development for Australia Post to make as it would require minimal training and infrastructure for retail staff and outlets and, without the need to assess credit worthiness and manage loans, would require a relatively lean banking team.

PostBank's revenue under this model would come from lending the deposits to other banks in the wholesale money market. This could be the final banking model or a stepping stone to *PostBank* providing the full range of banking services, including business and household lending. It's worth noting that this is how the Commonwealth Bank began operations, building capital through deposits that was quickly used to underpin its expansion into the full range of banking services (see 'History of Public Banking in Australia' section above).

Full savings and loans bank

The other extreme would involve *PostBank* offering the full range of retail and commercial banking services including mortgages, personal loans, credit cards, and business finance. While this model has the potential to generate far more revenue for Australia Post, it requires much more significant staff recruitment and training and far more substantial start up costs than the simple deposit taking institution outlined above. Rolling existing government agencies that provide loans into *PostBank* would create efficiencies and skill transfer in credit assessment but the task of building the capacity from scratch to launch a full range of lending services would still be substantial. Under this model the primary source of revenue would be mortgage lending, credit cards, and business lending.

It is this model, implemented with a social benefit mandate, that has the potential to discipline the Australian banking sector, reinvigorate productive business lending, and speed up Australia's transition to a post-carbon economy.

We recommend a phased approach with the ultimate goal a full national savings and loans bank. This phased approach would begin with the opening of basic savings and transaction accounts, followed by credit cards and personal loans, then the introduction of mortgages for owner occupied and small investor real estate followed by commercial lending with an initial focus on agricultural and other regional and rural business lending. This phased approach would allow a steady, staged rollout of new services with profits and capital from one stage funding the rollout of the next phase, thus minimising the initial capital requirements.

Either model outlined above, or something in between, has the potential to provide the revenue necessary to maintain Australia Post's retail presence in the face of diminishing use of traditional postage services, maintain less profitable postal services and increase Australia Post's dividends to government. It is also through the provision of competitive and secure banking services that *PostBank* will have a positive impact on the entire retail and commercial banking sector in Australia. The greater the range of banking services PostBank could offer, the greater the potential benefit to the Australian community, environment and economy (see 'Why public banking?' section above).

As a relatively recently established postal banking service, Kiwibank provides an excellent template for how Australia Post could become a bank. Indeed, Kiwibank executives have in the past publicly offered to advise Australia Post on the setting up of a postal bank in Australia (Stuff.co.nz, 2009).

Insurance and investment banking

While there are good arguments for a government owned insurance business, for simplicity's sake we do not propose that *PostBank* considers entering into the insurance industry at this stage. This may be something *PostBank* considers in the medium to long term once the banking business is consolidated. There is no reason Australia Post or *PostBank* could not continue offer third party insurance products.

By contrast there appear to be few reasons *PostBank* would ever operate investment banking services, except to gain market share for the purposes of additional revenue.

Who will pay for it?

An initial injection of capital would be required to provide the liquidity necessary to begin offering banking services. This could come directly from the federal government, who would remain the owner of the bank, through its ownership of Australia Post. The amount would depend on the initial ambitions of the bank. Domestic and international banking experience tells us that this initial investment by the federal government would attract a return far beyond the borrowing costs.

An alternative path to kickstart *PostBank* that would not require large investment of public money would be for public institutions, including state and local governments, to agree to bank with *PostBank*. This would immediately provide the liquidity needed to start banking operations and begin revenue generation through wholesale lending to other banks. Each of the states used to have their own bank, which have all since been privatised (see 'History of Public Banking in Australia' section above). They now contract private commercial banks to provide their banking services. With the *Banking Act 1945* the federal government attempted to compel state governments to bank with the Commonwealth Bank but this move was ruled unconstitutional by the High Court in 1947. However, this ruling would not preclude state and territory governments agreeing to such a move through Commonwealth Heads Of Government Meeting/Council Of Australian Governments processes. State and local governments and other government organisations banking with *PostBank* would not only provide *PostBank* with very substantial liquidity, it would also save significant public money that is currently spent contracting private banks to provide these services.

Even this level of government involvement may not be necessary if the same approach was taken as Commonwealth Bank Governor Dennis Miller took in 1912 when he simply opened branches and started taking deposits and used these to capitalise the broader banking services. Combining this approach with a public campaign to switch banks, as was done successfully in New Zealand for the establishment of Kiwibank, could quite rapidly see a substantial number of individuals and businesses move their banking to *PostBank*.

Whichever approach is taken, it's clear that the capitalisation of the bank is readily achievable and need not be a drain on public finances. As a point of reference, Kiwibank was established with only $NZ80 million in capital.

State, territory and federal governments could provide the initial funds necessary to train existing staff, recruit banking staff and build or acquire the necessary physical infrastructure to set up the bank. This could be a way for state governments to purchase equity in *PostBank*. Shared ownership by state and federal governments would increase the commitment to public banking and provide a much-needed new revenue source for state and territory governments. It may also protect *PostBank* from privatisation or capture by the financial industry should a federal government be elected that is poorly disposed to public banking.

Barriers and challenges

One of the key potential risks is that *PostBank* becomes a victim of its own success. If it becomes a successful and profitable institution with a substantial customer base, then it will be a constant temptation for governments to sell it. One safeguard against this, as outlined above, is to have both state and federal government ownership and require unanimous agreement before the connection between the bank and Australia post can be severed or before Australia Post can sell any portion of the bank to non-government investors.

Upgrades to existing infrastructure and security

While the existing post office network provides a fantastic starting point for a bank network, substantial investment may still be needed to upgrade post offices to bank branches, potentially including extra office space in larger branches for branch managers and upgraded security.

The 'big four' banks

Banking is not only extraordinarily profitable in Australia but also represents substantial private power. Any serious suggestion from government or Australia Post about the establishment of a new, government owned bank in Australia is likely to trigger an unprecedented private campaign of opposition from the 'big four' banks, who stand to lose market share and, more importantly, market power as a result. As the Banking Royal Commission demonstrated in numerous ways, market concentration and associated market power, combined with information asymmetry, currently gives the big four banks the capacity to put profits ahead of service quality and customer value. They can be expected to attempt to defend this market dominance with their considerable financial and political power.

Even if these challenges are overcome and the *PostBank* is established, it can be expected that the private banks will put constant pressure on governments to privatise it, break it up or cease its public benefit function just as they have done in Japan with the Japan Postal Savings System (Scher, 2001) and they did with the Commonwealth Bank of Australia.

The risks to existing positive trends in banking

Australia has a 180 year history of financial mutuals, also known as customer-owned banking institutions. The sector currently comprises 47 credit unions, 22 mutual banks and three building societies. Collectively, they serve over 4 million Australians, with a total asset base of more than $110 billion. They mainly offer services to the consumer finance and housing market (COBA, 2019).

These ADIs are subject to the same regulations and legal obligations as are the big, for-profit banks, and are regulated by APRA under the *Banking Act 1959* and incorporated under the federal *Corporations Act 2001.*

After financial deregulation in the 1980s, the number of financial mutuals declined significantly, as smaller players merged, and larger institutions de-mutualised to become banks. In 2010, the Labor government introduced legislation to allow large financial mutuals to use the term "bank", in order to promote competition in the retail banking sector (Commonwealth of Australia, 2011).

Following the Banking Royal Commission, the Customer Owned Banking Association (COBA) released a *Competition Agenda* outlining four key steps to boost competition in the banking sector with a specific focus on retail customers.

COBA's four-step agenda is to:

1. Empower consumers by raising awareness and reducing barriers to switching;
2. Accommodate the customer owned model;
3. Improve regulator accountability and regulator focus on competition; and
4. Recognise the anti-competitive impact of regulatory compliance costs and ensure regulatory measures are proportionate and targeted. (COBA, 2019).

The creation of *PostBank* has the potential to impinge on this competition agenda and take customers away from the financial mutuals sector. The sector should be engaged constructively to ensure the shared objective of increasing competition in the retail banking sector is not undermined.

Conclusion

The case for public banking is strong, particularly in Australia where the market power of the 'big four' banks results in a lack of competition in the market.

Following the findings of the Banking Royal Commission, which uncovered innumerable examples of malfeasance and profit gouging by officials in the commercial banking sector, the creation of a trusted, publicly-owned bank, backed by government guarantee, is likely to be welcomed by the Australian people.

As we have demonstrated, a new government owned bank has the potential to improve the Australian economy and society by utilising the power of bank money creation, combined with a federal government guarantee, to reinvigorate regional Australia, assist in the transition to a low-carbon economy, and refocus commercial lending to productive business enterprise and away from asset price speculation.

The viability of the business models outlined in this paper, and the feasibility of the phased approach to building *PostBank* which we have proposed, provide assurance that the establishment of a public bank within the Australia Post Government Business Enterprise is both achieveable and relatively low-risk.

As we rebuild our economy and society from the shock of the COVID-19 pandemic and address the urgent challenge of climate change, trusted public institutions, with a mandate to serve public, rather than commercial, interests will be fundamental to restoring the trust of citizens in the foundations of our democratic nation.

The potential of an ambitious, reform-oriented public bank in 21st century Australia is enormous. By taking a bold step to establish such a service within the existing infrastructure and footprint of Australia Post, government could not only underpin the long-term viability of one of our most trusted public institutions, but begin to restore the trust of Australians in our financial and economic system.

The creation of *PostBank* could be a significant milestone in Australian political and economic history. We only need the political will to make it happen.

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