
Bank Branch Trends in Australia and Overseas

Introduction

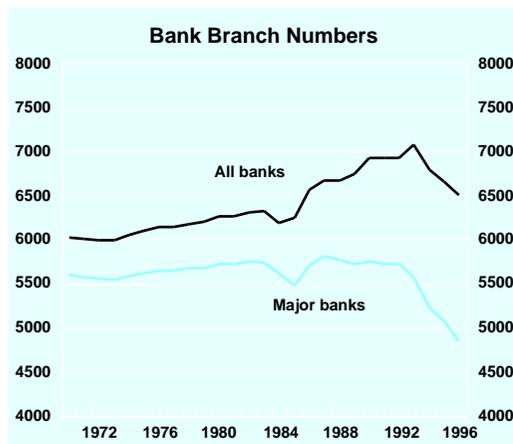
Since financial deregulation, retail banks have changed significantly, largely driven by a combination of technological advances and competition. A major area of change is in the role of branches in providing payment services. This role has come under increasing pressure from alternative delivery channels, such as automatic teller machines (ATMs) and on-line debit of accounts through electronic funds transfer at point of sale (EFTPOS) terminals, phone banking, computer banking and the use of the Internet. This article examines trends in branches and some alternative delivery channels, such as ATMs and EFTPOS devices, and compares Australia's position with that of other countries.

Bank Branches in Australia

Data on the number of bank branches are published annually in the September Reserve Bank *Bulletin*.¹ Graph 1 shows the total number of branches. Bank branch numbers grew slowly from 1970 to the mid 1980s. This followed a somewhat more rapid increase from the early 1950s, possibly reflecting the use of increased branch access as a form of competition in an era of heavy price regulation. Much of the growth in the mid 1980s reflects the conversion of some large building societies to banks and the entry of new, mainly foreign, banks. To abstract from this effect, the number of branches of the major banks is shown separately. The branches of the major banks include all the branches of banks that have been merged or taken over since 1970 to form the four major banks in Australia today.²

1. Prior to 1990 the data were published by the ABS. The ABS reported branches separately for savings banks and trading banks. Often the same branch number was reported by a trading bank and a savings bank in the same group. Where this was not the case, an approximation was made by assuming that the larger of the savings or trading banks' figure is representative of the group total. The legal distinction between savings banks and trading banks was abolished in 1990.
2. The 'major' banks include the bank branches of Australia and New Zealand Banking Group (ANZ), Bank of Adelaide, Bank of New Zealand, Bank of NSW, Challenge Bank, Commercial Bank of Australia, Commercial Banking Company of Sydney, Commonwealth Bank of Australia (CBA), National Bank of Australasia, National Australia Bank (NAB), State Bank of Victoria, Town and Country Bank, National Mutual Royal Bank and Westpac. These banks have combined at various points in time to form the four major banks in Australia today. CBA reclassified some 350 agencies as branches in 1991. For purposes of comparability, this number has been added to earlier figures.

Graph 1

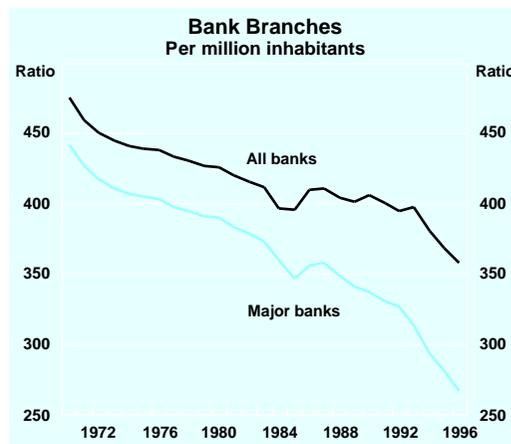


The total number of bank branches peaked in 1993, at 7,064, compared with 6,015 in 1970. Since 1993, the number of branches has fallen by 557, or close to 8 per cent, largely due to rationalisation of the networks of the major banks. Two of the major banks account for a large part of this decline; Westpac has reduced its branch network by over 200 branches (18 per cent) and the Commonwealth Bank by 20 per cent since 1993.³ Until the early 1990s, the number of bank branches of the major banks had remained relatively constant.

One measure of consumer access to the banking system is the number of branches per million inhabitants. A higher number of branches indicates greater consumer accessibility, but possibly lower efficiency from the banks' point of view. Graph 2 shows this ratio from 1970 to 1996.

The total number of bank branches per head of population declined up to the mid 1980s. However, with the entry of new banks beginning in 1985, the ratio of branches to population levelled off for a few years before declining further. In contrast, the major banks' ratio of branches per head of population has

Graph 2



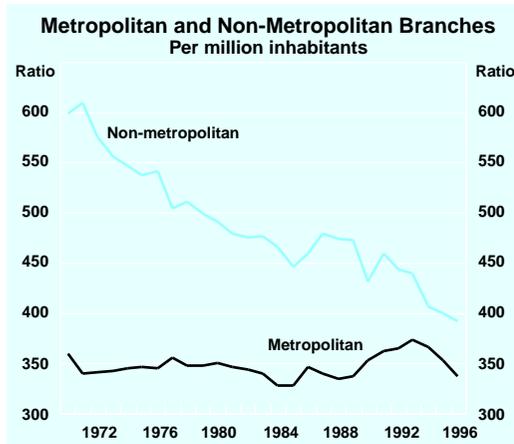
fallen almost continuously since the early 1970s. These banks have achieved efficiency gains initially by holding the absolute number of branches constant and more recently by reducing the number of branches.

The Distribution of Bank Branches

Data published in the Reserve Bank *Bulletin* on bank branches include the number in 'metropolitan areas' (capital cities and adjoining suburbs) and 'non-metropolitan areas'. Caution should be used in interpreting the data, and no more than broad relationships and trends should be inferred. The definition of metropolitan branches includes only those branches in capital cities and adjoining suburban areas, and thus excludes some smaller cities and large regional centres like Geelong, Newcastle and Gosford. There is a large break in the series in 1991 when the Commonwealth Bank reclassified some 350 agencies as branches.⁴ Graph 3 shows these data, with the number of branches divided by the number of inhabitants in each area.

3. A large part of the CBA reduction is due to its closure of branches in Victoria following the takeover of State Bank of Victoria in 1991. The CBA has reduced the number of branches from 1,813 in 1991 to 1,400 in 1996. Of the fall, 304 were in Victoria.
4. No adjustment to previous figures has been made for this reclassification, as the breakdown between metropolitan and non-metropolitan is not available.

Graph 3



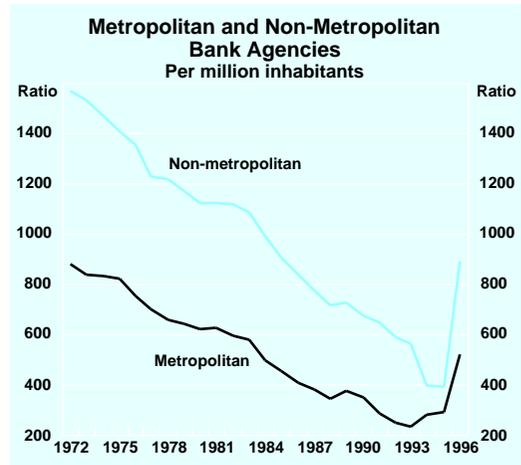
Non-metropolitan areas in the past have consistently had more branches per head than metropolitan areas. However, representation outside capital cities has decreased over the past twenty-five years as the number of bank branches has fallen slightly while population has risen. There were around 2,880 non-metropolitan branches in 1970, and 2,629 in 1996; a decline of 9 per cent over the period. In contrast, the ratio of metropolitan branches to metropolitan population has been relatively stable. The small rise in metropolitan branches in the late 1980s is partly due to the introduction of new banks. These new banks and converted building societies are mainly city based.

The Distribution of Bank Agencies

The decline in non-metropolitan branches has not been offset by an increase in agencies or increased branch representation of other financial institutions, until very recently. Data on bank agencies per inhabitant, shown in Graph 4, show sharp falls in both metropolitan and non-metropolitan areas.

Agency figures include agencies staffed by non-bank employees, such as shopkeepers and postmasters. For many years, the Commonwealth Bank has used the post office

Graph 4

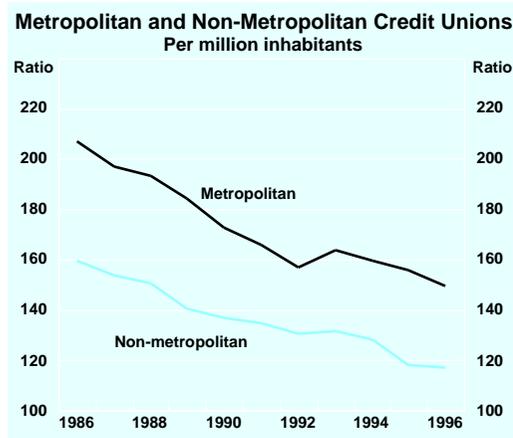


for some banking operations and recently Australia Post has begun to offer payment services to other banks through *giroPost*, an electronic financial service network. At the time of its launch, the *giroPost* network included 2,100 postal outlets across Australia, encompassing 5,700 counter terminals. It is expected to expand to 3,000 outlets by 1997. Around 40 per cent of the *giroPost* network is in rural communities. The sharp rise in agencies in 1996 reflects the inclusion of post offices in the agency figures by some banks. Abstracting from this effect, the number of agencies is little changed.

Distribution of Credit Unions

Graph 5 shows data on the head office locations of credit unions. Statistics are not available on the location of any branches they might have, but most credit unions have no branches or a very limited number. These data show similar declines in representation in both metropolitan and non-metropolitan areas although, interestingly, a higher representation of credit unions (in terms of population) in metropolitan than non-metropolitan areas.

Graph 5

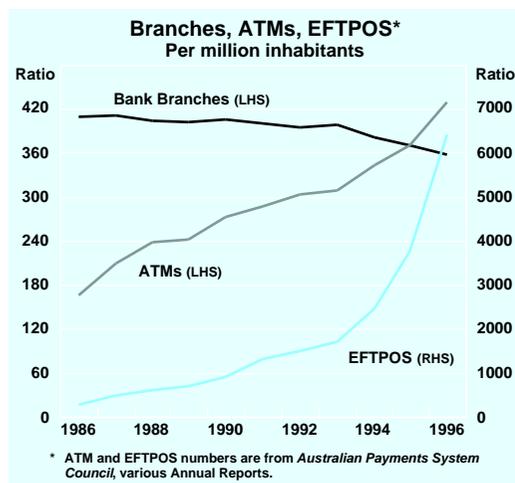


Electronic Access to Banking

ATMs and EFTPOS devices provide alternative access to some bank services. Graph 6 shows the remarkable growth of this technology over the past few years.

The number of ATMs exceeded the number of bank branches for the first time in 1996.

Graph 6



Traditionally, ATMs were placed at bank branches themselves, but more recently ATMs have been placed in off-site areas such as shopping malls, service stations, hotels and airports. The number of EFTPOS terminals grew particularly rapidly – by 72 per cent over the past year.

International Comparison of Bank Branches

This section draws largely on annual figures published by the Bank for International Settlements (BIS).⁵ Caution must be used in interpreting the raw data. Some European countries conduct transactional banking mainly through a giro system which operates through the postal network. (Giros are credit payments where a purchaser instructs his/her bank to initiate a payment.) Giro systems may reduce the number of bank branches relative to other countries.

Comparisons between countries will thus be affected by the structure of each country's financial system, and the relative importance of banks compared with other financial institutions. Comparisons over time will be affected by changes in institutional arrangements. For instance, in Australia, 13 building societies with a total of more than 500 branches have become banks since 1983. Given the importance of this to interpreting the Australian data, the graphs below include the branches of converting societies in the figures for previous years. Similarly an adjustment has been made for the effect of the 1991 reclassification of Commonwealth Bank agencies (see footnote 2).

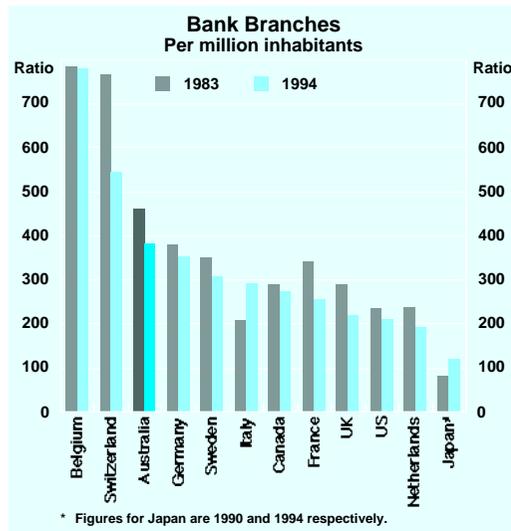
Data for other countries may suffer similar problems. For Switzerland, branches of credit institutions (a somewhat broader measure than banks) are used to allow for comparability with previous data. Japan reclassified some regional banks from 'financial institutions for small businesses' to

5. *Statistics on Payment Systems in the Group of Ten Countries*, Bank for International Settlements, Basle (various issues). 1994 data are the latest available.

'commercial banks' in 1990; earlier figures are not strictly comparable. Neither are those for Italy, where branch data have been affected by regulatory changes.

The number of *bank branches* per million inhabitants is shown in Graph 7 for 12 developed countries, including Australia.

Graph 7

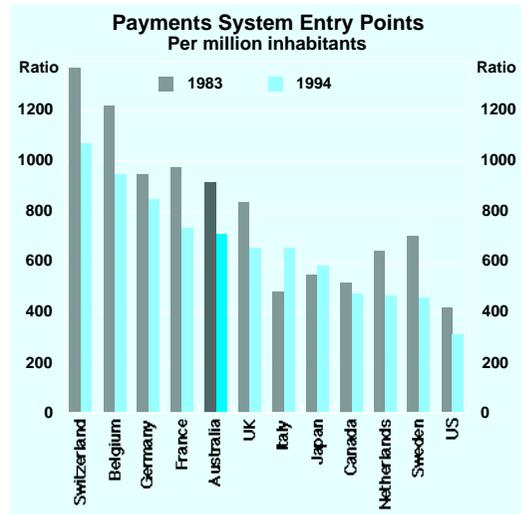


There has been a general decline in branch numbers per million inhabitants over time in most countries. In 1994 Australia had the third highest ratio of bank branches to population behind Belgium and Switzerland.

The BIS also publishes data on the number of *entry points* to the payments system in each country. This measure includes branches of all financial institutions as well as post offices which offer payment services. In Australia, a comparable measure includes Commonwealth Bank agencies in post offices, as well as branches of building societies and credit unions. Comparison of number of entry points is shown in Graph 8.

The number of entry points per million inhabitants decreased in most countries between 1983 and 1994. The movement for Australia reflects declines in both agencies and branch numbers. Australia ranked fifth for number of entry points per million inhabitants in 1983 and 1994.

Graph 8



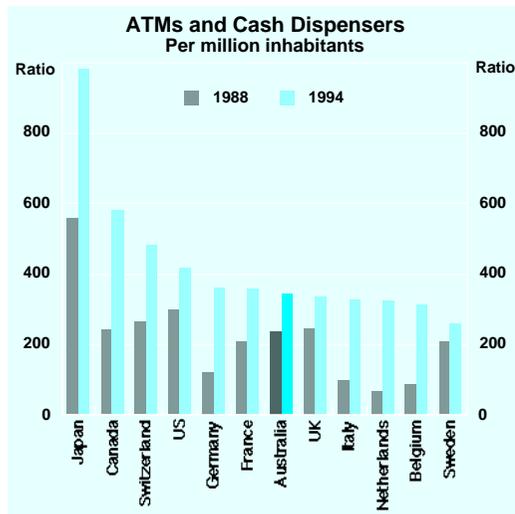
International Comparison of Electronic Access

An important avenue for consumer access to payment and other banking services is the availability of electronic payment devices which can, in part, substitute for bank branches. ATMs have the potential to provide remote access to many of the payment service functions traditionally offered by branches. In 1994, Australia ranked in the middle of the pack (seventh position) in terms of ATMs per million inhabitants (Graph 9).

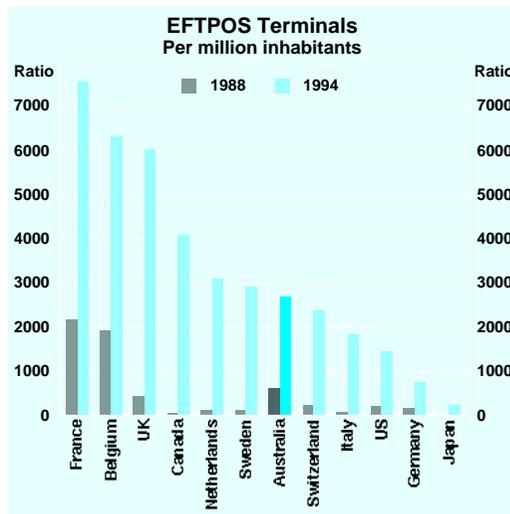
On average across these countries, the number of ATMs per head has nearly doubled between 1988 and 1994. Starting from a relatively higher base than many countries, the number of ATMs per head in Australia rose by 45 per cent over this period.

EFTPOS terminals are another partial substitute for access to a branch. They are appearing in numerous merchant sites, and some can be operated remotely, such as from taxi-cabs and service vehicles. Graph 10 shows the number of EFTPOS terminals per million inhabitants in 1988 and 1994.

Graph 9



Graph 10



Australia ranks in the middle of the group in terms of EFTPOS per million inhabitants, with most countries in the sample showing remarkable growth in the number of terminals since they were introduced in the mid 1980s. With the exception of Japan, the number of EFTPOS terminals now far exceeds the number of ATMs in these countries.

Conclusions

While the number of bank branches has been declining over the past few years, access to the payment system and some other

banking functions has expanded in a number of other ways, largely due to advances in electronic technology. In 1996, the number of ATMs has, for the first time, exceeded the number of bank branches, and the number of EFTPOS terminals continues to grow at a very high rate. Australia appears to continue to have a larger number of bank branches per head than countries with similar nationwide banking systems like the UK and Canada, but the number of branches is declining. This is in line with declines in a number of similar countries where banks are responding to pressures to reduce operating costs by substituting electronic access to banking services.