Australian bank announces record profits alongside new branch closures and hefty fee increases

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The National Australia Bank (NAB), one of Australia's largest banks, has just announced a new record profit of $A3.2 billion for the year ending September. The figure released yesterday tops last year's profit—the previous record high—of $2.8 billion.

The huge profit margin comes just two weeks after the bank released plans to close another 100 of its 964 branches over the next 18 months and raise fees on a range of banking transactions. The move is part of a constant round of restructuring and cost-cutting as Australian banks face fierce competition and possible takeover by their international rivals. The NAB has already closed 88 branches over the past year and plans to shut another 10 before the end of December.

NAB management claims that only 250 jobs will be affected and the displaced staff will be relocated to other areas. But the Finance Sector Union warned that the branch closures “put up to 1,000 jobs at risk”. The union's estimate is in line with comments by NAB senior executive Michael Cooms in July forecasting that up to 6,000 staff would be made redundant by 2005 “as a result of e-commerce initiatives”.

The bank also announced new charges that took effect from November 1 on previously free banking transactions such as fund transfers at its ATMs and Internet banking. Over-the-counter fees will leap by 50 percent from $2 to $3 per transaction. The value of NAB shares jumped immediately by 46 cents to $27.12.

A NBA spokesman said the bank was following the lead of the Commonwealth Bank of Australia (CBA) and moving to the “user pays principle”, focusing on the “cost of providing services”. The CBA has already hiked its fees. Over the last five years the bank has closed 438 branches and destroyed more than 13,000 staff positions. This year the CBA, which made a record profit of $1.7 billion, announced it would axe another 250 branches following its buyout of the Colonial Bank.

The NAB decision has resulted in similar announcements by other leading banks. Just two days later, Westpac announced it would also increase its fees on “labour intensive” services including counter transactions and processing cheques. On the same day CBA chairman John Ralph said his organisation “would continue to examine whether it could close more branches”.

ANZ chief executive John McFarlane declared that his bank would undertake a $360 million restructuring program over the next three years, including an overhaul of its branch network. Banking analysts estimate that the ANZ restructure will result in the loss of up to 4,500 jobs. The bank has also made a record full-year profit of $3.3 billion.

Further branch closures and increased bank fees threaten to compound the political problems facing the federal Liberal-National coalition government, which already faces an electoral backlash in rural areas hard hit by the loss of jobs and basic services—including banking.

Federal Treasurer Peter Costello feigned surprise at the NAB announcement, saying he was “concerned” about “some fee increases” and called for the NAB to “justify and explain its actions” to the government and to its customers. Speaking on Radio 3AW, NAB spokesman Mike Pratt said he was surprised by Costello's statement as the bank had fully briefed the Treasurer's office on the fee increases beforehand.

The criticisms of the Labor Party opposition were equally as lame. Financial services spokesman Stephen Conroy said a “moratorium on bank fees and charges was needed” and called for a “summit with community groups and banks to develop a social charter of community obligations”.

Banks, however, like all corporations, are in business to make a profit, not to provide a community service. Extensive branch networks and branch transactions were once a major source of income. But over the last decade the structure of banking has altered dramatically with the advent of electronic banking and the shift by banks into new and more lucrative financial areas.

Banks have deliberately increased across-the-counter fees and downgraded branches to force customers to use electronic forms of banking. The CBA, for instance, now handles 82 percent of its 1.7 billion transactions electronically—more than one third of which are through ATMs. The figures are similar for other major banks. The shift to electronic banking is then used as the rationale for further branch restructuring and job cutbacks.

An editorial in the *Australian* newspaper commented: “This fee regime is not about recovering changing costs; it is about making the less profitable services less of a drain and forcing people to use the bank's most profitable services. The banks—and NAB is not alone—are saying to less profitable customers: ‘Go elsewhere'.”

The banks are making significant earnings from electronic banking and other fees. A study conducted by the Reserve Bank of Australia this year showed that the banks earn $800 million a year simply by processing the credit card transactions of customers from other banks. Another survey found that the average charges on a standard bank account now stand at $330 a year.

The focus of banking activity is shifting from servicing small accounts and home loans to other more lucrative areas, including life insurance, fund management and servicing the accounts of wealthy clients and large corporations. At the same time to compete at an international level the so-called Big Four Australian banks are compelled to not only maintain healthy profit margins but to substantially boost their overall operations.

The NAB, for instance, recently engaged Merrill Lynch to advise it on takeovers and buyouts. Targets named include the Bank of Scotland and several British mortgage banks, including Alliance & Leicester and the Yorkshire building society Bradford and Bingly.

According to Goldman Sachs, mergers are a better means of boosting market standing and can add more than 15 to 20 percent to a bank's shareholder value. But merger partners will only be attracted if the Australian banks are seen as viable.

A Goldman Sachs spokesman noted the falling Australian dollar makes Australian banks prime targets for hostile takeovers. “If you look at the global environment today, the prospect of an overseas bid for an Australian bank is greater today than has ever been the case. You cannot ignore where the Australian dollar is and therefore the affordability of Australian organisations to overseas banks.”

All of these are powerful arguments for top bank management to continue to shed unprofitable areas, cut costs and grab opportunities to increase the size and scope of their operations. As a result, there is renewed pressure on the government to modify its “four pillar policy” prohibiting mergers between the “Big Four” banks—a policy that was supposed to encourage bank competition at the national level and lead to improved customer service.