

Bendigo Bank praised by Reserve Bank governor

As the major Australian banks, in particular the National Australia Bank and the ANZ, contemplate their rising bad debts and resultant falling share prices, the community legitimately asks how supposedly experienced financial players got themselves into this position.

Clearly, the answer lies in the global debt crisis, most starkly illustrated in the American sub-prime meltdown, exotic off-shore banking activities and neglect of core domestic markets.

The desertion of rural and provincial Australia by the major banks is a particularly shameful episode in the history of banking in this country. By the year 2000, no fewer than one in three bank branches had closed across Australia. Moreover, every Australian is painfully aware of the deteriorating personal service to the retail customer by the major banks that has accompanied the bank closures.

One bank, however, saw this defaulting of community obligations by the major banks as an opportunity and took full advantage of the market opening.

"Community bank" model

That bank is, of course, the Bendigo Bank. In the last decade its branches have appeared everywhere across regional Australia and also throughout the suburbs. It now has over 400 branches, 210 of which have been established upon the unique "community bank" model.

Bendigo Bank has just celebrated its 150th anniversary. The Bendigo Bank started at the height of the Victorian gold rush, being established on July 9, 1858, as the Bendigo Land and Building Society. It was set up by 150 or so individuals subscribing five pounds each in capital.

In time, it reconstituted as a permanent building society, and over the years merged with other building societies and financial institutions. By 1995 it was the nation's oldest, and Victoria's largest, building society. In that year it took a banking licence, which, with further developments, gave us the institution with which Australians are familiar today.

Recently, Bendigo Bank merged with the Adelaide Bank, which gives it total assets of around \$50 billion and makes it the nation's 11th largest bank.

Good banking is about sensible risk-management, not about adventures into the exotic on one hand, or total risk avoidance on the other. Like everything in life, banking is about balance. This the Bendigo Bank has achieved throughout all the highs and lows of economic life over the past 150 years.

Speaking about Bendigo Bank's remarkable history, the Reserve Bank of Australia's governor Glenn Stevens gave this tribute in his address on July 9 last at the Bendigo Bank's 150th anniversary dinner at the Bendigo Town Hall:

"For a locally based financial institution to ride through such cycles, without itself being too swept up in events, something must have been working well. It is surely not chance — 150 years would be a rather long lucky streak.

"More likely, this success is remarkable testimony to generations of managers who had a good assessment of risk, plenty of common sense, a strong attachment to their core business and an ability to resist the temptation of exotic new opportunities.

"It sounds simple. Yet the managements and boards of some of the

world's largest and most sophisticated financial institutions did not meet that standard during the past decade, and the fallout is now upon them (and the rest of the world). Much shareholder wealth has been destroyed and reputations of some major institutions damaged.

"The result has been one of the most acute withdrawals in confidence between major institutions in living memory."

Central also to the success of the Bendigo Bank has been its unique community bank model. The first community bank branches were opened in 1998 and were very much a direct response to community demand for personalised banking, following the widespread branch closures by the major banks during the 1990s.

Community bank branches are set up by local communities forming a locally-owned company to obtain a commercial franchise to run a Bendigo Bank branch. Bendigo Bank, of course, provides banking infrastructure and support, but the commu-

nity manages the branch, marshals community support and returns profits to the local community. Normally, \$750,000 of local capital is needed to set up a community bank branch.

The community branch model allows communities of all types, urban or rural, to retain control of local capital. Profits are returned to local communities through dividends and to local community groups through grants and sponsorships. Local groups that benefit from community bank support range from Country Fire Authority (CFA) brigades, through local schools to football clubs and youth groups.

The Bendigo Bank has returned banking in Australia to its grass roots. This is not only of immense benefit to the community; it also makes for better banking.

— Ken Aldred is a former federal Liberal MP and is also a member of the Beaconsfield District Community Bank Steering Committee.



RBA governor
Glenn Stevens