

# RAINBOW FINANCIAL SERVICES PTY LTD

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The Secretary,  
Financial Systems Inquiry  
Treasury Building  
Parkes Place  
Parkes ACT 2600

August 30, 1996

Dear Sir,

Herewith is our submission to the Inquiry. It concerns a new banking system.

We have been in negotiation with the major banks for some time regarding this system and still many details are to be settled. Consequently, at this stage, we cannot provide ultimate details of the ownership of the company to be used as the vehicle to implement the system. Nor can the expected income be provided of particular banks and shareholders as a result of using the Rainbow system. However, in broad terms the system itself can be discussed publicly, so to assist the Inquiry and interested parties we have no objection to the publication of the Executive Summary and the preamble to that Summary.

Fuller details of the Rainbow system are contained in the private segment of our submission to the Inquiry. The original offer made to the major banks best describes the Rainbow banking system and this is provided for evaluation. Responses from the RBA and the ACCC to inquiries we made are included in the hard copy.

If any member of the Inquiry would like further detail or information I can be contacted on 02 9451-8808 or by fax on 02 9451 8908.

Yours sincerely,

Stuart C. Roberts  
Managing Director

## EXECUTIVE SUMMARY

The Rainbow agency system works this way:

In a banking precinct (either a suburb or country town) the best existing banking premises are chosen. It is almost certain that these will either be owner or leased by one of the major banks. These become the Rainbow branch. The premises are enlarged and modernised where necessary and subsequently staffed by professional bankers skilled in providing all of the products and services that the participating banks and finance houses offer their clients. Customers can access each of their bank and other accounts at the one teller point and every product and service that the client expects from their bank, building society or credit union can be delivered at a Rainbow branch. It is expected that extended trading hours will be provided, including Saturdays.

The cost of establishing the Rainbow system throughout Australia runs into many millions of dollars and is beyond the resources of Rainbow Financial Services Pty. Ltd. Furthermore, success of the system relies in part on the provision of suitable premises which only the major banks can provide.

The ownership structure is likely to be the major banks of Australia with the management of Rainbow retaining a small interest as designers, managers and implementers.

Rainbow has the potential to reduce the **annual** overheads of the major banks by more than \$500 million **each**, limited only by the number of branches committed to the system. In addition, the major banks and other subscribers will have representation in precincts which would only be possible by establishing a full branch with all of the attendant costs. Currently banks are reducing branches, not adding new ones.

A Rainbow branch is not some Post Office compromise. It can deliver every retail product provided from a major branch of one of the participating banks, building societies or credit unions. For example: accounts can be opened and closed, cheques deposited and cashed, cash deposited, credit cards actioned, foreign exchange transactions made, home loan applications lodged, change for small business provided, bank cheques issued for settlements, payments can be made to utilities, access to special products, such as insurance or broking, that a participating finance house may provide. In country branches facilities will be provided for commercial lending to farmers and business. No longer will customers have to travel long distances for banking services.

The Rainbow Company acknowledges that the introduction of electronic banking will gradually reduce many over-the-counter transactions. However bank branches and the facilities they provide are still in high demand despite the "penalties" introduced to deter clients from attending bank premises. The Rainbow system provides an arrangement which benefits both the public and the banking and finance sector.

The principals of Rainbow have, or have access to, the banking, real estate, construction and computer skills to make this new banking system a reality.

To learn more of the Rainbow system interested parties can write to Rainbow Financial Services Pty Ltd. at the office of the company at Level 3, 140 Phillip Street, Sydney, NSW 2000.

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## **A NEW BANKING SYSTEM**

Rainbow Financial Services Pty. Ltd. (Rainbow) has put an offer to the major banks (ANZ, CBA, NAB and Westpac) for Rainbow to provide an agency system enabling those banks and other financial service providers to maintain and increase their representation throughout Australia at a fraction of the cost of operating the traditional branch network. Adopting the Rainbow system will provide substantial benefits for the public and especially those in the more remote areas faced with loss of full banking services by closure. The banks and other financial institutions which will be invited to join the Rainbow network benefit by a dramatic reduction of delivery costs thus enabling them to reduce margins and fees.

For the Rainbow system to be accepted and subsequently put in place it needs the support of the general public and the Financial Systems Inquiry is seen as the medium to introduce the system for public discussion.

It should be noted that the name Rainbow is a working name only and should the system be adopted it is the intention to apply for the use of the name "Federal Financial Services".

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**Sample letter sent to Chief Executives of the Australia and New Zealand Bank Ltd., Commonwealth Bank of Australia, National Australia Bank and the Westpac Banking Corporation.**

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Last year I submitted to you the details of a banking agency system which provided your bank with the opportunity to close surplus branches without losing market share. The system creates substantial profits for the shareholders of the agency company, Rainbow Financial Services Pty. Ltd., and it was proposed that your bank become a shareholder.

In response to suggestions I have revised the system and consequently re-submit it for your consideration. There are substantial changes to some aspects, which in part reflect the benefit of consultation with the Reserve Bank of Australia and the Australian Competition & Consumer Commission.

Rainbow Financial Services Pty. Ltd. ("Rainbow")

Rainbow is a working name only and when terms and shareholdings are settled I will apply to the RBA to use the name "Federal Financial Services". This name would reflect the national character of the company. Shareholders would be the four Major banks (Westpac, ANZ, CBA and NAB - 24.5% each) with myself, as author, taking a minor 2% interest.

Executive Summary

1. It is proposed the Majors contract with Rainbow to act as their agent in various banking precincts throughout Australia and perhaps New Zealand.
2. Rainbow will provide premises, hire staff, install data processing systems and provide regional support facilities.
3. Other banks and finance houses will be invited to use the system.
4. Those using the system will pay a monthly rent. The Majors would pay a set rent per branch, other users would pay on an activity basis.
5. Expert opinion (but not universal opinion) is that electronic banking will gradually replace the need for branch banking so the Rainbow system has been given a notional life of 10 years.
6. Implementation of the Rainbow system would provide a minimum \$187 million in annual profit and savings to (X Bank) and there is the potential for this figure to be substantially increased.

The Rainbow system is not a post office compromise. It would be staffed and managed by professional bankers trained in the Rainbow procedures and systems. It will operate from the best banking premises in each banking precinct and will provide customers with efficiency and services not now experienced.

### The Rainbow System

Rainbow would establish a nationwide agency network for the Majors which would enable them to rationalise their branch networks and at the same time increase their representation throughout Australia and perhaps New Zealand. A rainbow branch gives Majors representation in suburbs and towns in which they were previously unrepresented.

A Rainbow facility in a suburb or town will operate out of premises which were formerly a branch of one of the Majors. The premises will be chosen by the Majors represented in that precinct with size and location being prime considerations. It will be staffed by Rainbow personnel and provide office facilities for lending activities should they be required.

The Rainbow branch would have its own livery.

The Majors would contract with Rainbow and pay monthly an annual fee of \$300,000 for the use of each branch. This represents approximately half of the cost of operating a typical Majors branch inclusive of head office support. The contract would provide for Rainbow to provide a comprehensive and professional service. Rainbow would be responsible for mistakes and theft.

Unlike the Post Office Giro system, every retail function performed now at a Major bank can be performed at a Rainbow branch.

### Reserve Bank of Australia

I have sought a formal opinion from the RBA regarding Rainbow. It has advised that there appear to be no legislative or administrative barriers to the system being implemented. It did note that it was important for the public to be aware that Rainbow was an agency and not a bank. In addition, prior to your bank taking up significant equity, the RBA would expect consultation.

### Public Benefit

There is substantial public benefit by adopting the Rainbow system:

- Rainbow effectively assures for at least a period the non-closure of bank branches so important for certain sectors of the community, including small business and those in remote country areas.
- Rainbow substantially reduces retail banking costs giving the opportunity for all banks to reduce fees and charges.

- Access to all customer accounts can be had from a Rainbow branch which means, in effect, “one stop banking”.
- Rainbow gives the ability for private and business customers to bank cash (and gain a receipt) which is so important for small shops, dentists, doctors, cinemas, theatres, hotels, liquor stores, restaurants, produce merchants, fruit and vegetable growers, bus companies, clubs, solicitors (who need settlement facilities), service stations, real estate agents ( in some States it is required by law to bank daily) and Australia’s largest industry: gambling.

### Australian Competition & Consumer Commission

A formal opinion on the Rainbow system was sought, and obtained, from the ACCC. I have subsequently addressed the concerns it expressed and believe I shall have its support, subject to the final system being substantially no different to that outlined in this letter. An application would need to be made when terms are settled. The ACCC did point out that public benefit could outweigh any anti-competitive aspect of the arrangements or conduct. The ACCC opinion is available for your examination.

### Security

The information that a Rainbow teller receives on the screen is the information that the customer’s bank supplies. A customer of the participating banks would present their documents to the teller who would enter the customer’s account number. The screen would show the customer’s name, signature, account balance and limit. Participating banks control the security as they control the information supplied to the Rainbow tellers. No customer files are to be kept on Rainbow premises.

### Branch Selection Process

The Majors would vote for the most suitable Major’s branch in each banking precinct. Suitability would depend on the size and location. No Major could vote for their own branch and should there be a tied vote, Rainbow, as manager, would make the selection.

If the chosen premises were leased, the lease would be assigned to Rainbow. If the premises were owned, Rainbow would lease them from the Major on market terms.

The branch could then be sold subject to the Rainbow lease and the Major would derive the capital benefit.

The Majors would have the responsibility of disposing of the premises made redundant.

### Delayed Commitment

A Major may choose to “wait and see”. This attitude would mean their branches would be excluded from the selection process permanently.

## Branch Conversion

The chosen branch will have, prior to conversion, reasonable facilities including teller stations, cash storage, security systems, air-conditioning and staff facilities.

However, a conversion allowance of \$300,000 has been made and this provides for:

- painting of the branch in the Rainbow corporate colours (to be chosen by the shareholders)  
  
    additional teller stations
- new carpeting
- refreshed staff amenities
- cellular offices
- compliance with statutory authority requirements

Rainbow's architects would supply the selected builders with instruction kits and a manual of finishes to achieve standardisation where possible. Carpets and signage would be pre-ordered to prevent delay and the chosen systems supplier would merge the existing systems.

Rainbow would purchase from the outgoing Major, at market value, furniture and fittings required for the new Rainbow branch. ATM machines at the selected premises would be retained and supplemented if necessary. Subsequently these items would be leased.

Tradespeople would be drawn from local contractors in the towns and appointed by Rainbow. Recommendations will be sought from the Major's local staff with construction supervised by Rainbow. In the suburbs, with a much wider choice of tradespeople, savings could be expected.

Basic conversion (painting, systems, carpets and signage) can be achieved from close of business on Friday evening until Monday morning. Extension of teller stations and other works could be accomplished during the evening. The seemingly high conversion allowance includes a provision for security guards being present during building works and recognition that such works are expensive in remote locations.

There is no reason why several hundred conversions could not take place on any given weekend. I know this can be achieved as some years ago I supervised the re-badging of several thousand service stations.

Conversion costs are to the account of Rainbow.

### Rainbow Branch Staff

Initially Rainbow will man its branches with a staff of 18 which will be drawn from displaced staff brought about by the closure of Major's branches in the precinct. In a precinct of four Major branches, there would be about 28 employees resulting in 10 people being displaced. Having regard to the likelihood of closures, without the influence of Rainbow, over a relatively short period Rainbow would be a larger employer than the Majors.

Redundancy costs would be to the account of the Majors.

### The Contracts

The contracts between Rainbow and the Majors would provide for Rainbow to act as agent for the Majors for a period of 10 years.

Each Major would contract to provide not less than 500 branches for closure and to be represented by Rainbow. The branches offered by the Majors shall be in a banking precinct where at least two Majors' branches are represented. Rainbow will undertake to operate very remote branches after the minimum number of branches has been offered. The Rainbow Steering Committee would allocate closure precincts.

Rainbow will be obliged to recruit the best possible staff from the pool created by redundancies. The staff will be trained by Rainbow in the Majors' and other banks' systems and products. Tellers would provide all retail banking services including advice to customers on term deposits. For instance: an X Bank customer might inquire regarding the rates and terms offered by the "Bluebird Happiness Account". The teller could request from their station hard copy details of this Account and this could be in the customer's hands within seconds.

As previously indicated, each of the Majors pay an annual fee of \$300,000 for each Rainbow branch opened. It is expected that over the term of the contract the volume of personal visits may diminish thus allowing Rainbow staff to be reduced. This should compensate for inflation reducing the income of Rainbow.

Contracts are dependent upon at least two of the Majors committing to Rainbow.

### Expected Commitment

It is presumed that the branches which the Majors would first wish to close would be those in country locations. It is also presumed that further commitment (beyond what is required contractually) will be withheld pending review of the success of Rainbow.

The maximum number of Rainbow branches could be limited to equal numbers per Major. Should a Major require additional branches absorbed, an equal number of other Majors' branches within the same banking precinct would need to be committed, otherwise the equilibrium would be disturbed. It is thought that the Steering Committee would deal with events and decisions such as this.

### Rainbow Steering Committee

To implement the project a Steering Committee would need to be formed. This Committee would formulate policies and comprise representatives from the Majors. Once the system is established the only permanent staff needed are Human Resources, a Premises and Systems Maintenance team and a Service Division looking after accounting and advertising.

### Establishment Costs

It is suggested that to operate efficiently small regional offices need to be located in each State capital. A total allowance of \$8 million has been made to provide regional office accommodation and equipment.

### Outside Subscribers

Rainbow is required to offer the system to other banks and finance houses. The appropriate fee basis would be a fee per activity.

If Rainbow were to be located in centres attractive to smaller banks wishing to target certain customers or groups of customers, this would be a matter of concern but Rainbow is designed to replace branches in remote locations. However, I believe consideration should be given to examining the possibility of opening the whole banking network to small banks, building societies and credit unions and retain only flagship branches. This would give the Majors a cost free banking network and a substantial profit from providing the service. Without the resources it is difficult for me to estimate how many potential subscribers there are and the volume of business they could generate, but it is obviously substantial.

### Annual Financial Benefits to X Bank

Branch Numbers				
Committed to System		500	1,000	1,500
Share of Rainbow New Profit (24.5% shareholding)	(\$m)	36.75	73.50	110.25
Net Overhead Saving	(\$m)	150.00	300.00	450.00
Total	(\$m)	186.75	373.50	560.25

In addition there is the income from subscribers and substantial funds generated from the sale of surplus branches.

## Summary

The Rainbow system can increase your bank's annual profitability by at least \$187 million and allows the smooth adaptation of electronic banking should that system be considered the eventual replacement of remote and unprofitable branches.

Rainbow creates a substantial public benefit and consequently formal support of the ACCC can be expected. In addition, my research indicates that the general public would welcome the Rainbow system with its smart new branches staffed with senior professional bankers.

The RBA has no problems with the concept and informal discussions with a major shareholder of your bank and a broker suggest they would welcome the adoption of the Rainbow system and the financial benefits it provides to your shareholders.

I will seek Government support for the system as soon as Cabinet appointments are made.

I would be grateful to have your opinion on the Rainbow system.