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JOINT COMMITTEE ON CORPORATIONS AND FINANCIAL SERVICES

Reference: Banking and financial services in rural, regional and remote areas of Australia

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JOINT COMMITTEE ON CORPORATIONS AND FINANCIAL SERVICES

Wednesday, 5 November 2003

Members: Senator Chapman *(Chair)*, Senator Wong *(Deputy Chair)*, Senators Brandis, Conroy and Murray and Mr Byrne, Mr Griffin, Mr Hunt and Mr McArthur

Senators and members in attendance: Senators Chapman, Murray and Wong and Mr Griffin and Mr Hunt

Terms of reference for the inquiry:

To inquire into the level of banking and financial services available to Australians living in rural, regional and remote areas of Australia with particular focus on the following:

(a) options for making additional banking services available to rural and regional communities, including the potential for shared banking facilities;

(b) options for expansion of banking facilities through non-traditional channels including new technologies;

(c) the level of service currently available to rural and regional residents; and

(d) international experiences and policies designed to enhance and improve the quality of rural banking services.

WITNESSES

Committee met at 4.10 p.m.

ANDERSON, Mr Gordon, Senior Manager, Payments, IMB, and representing Australian Association of Permanent Building Societies

BELL, Mr David, Chief Executive Officer, Australian Bankers Association

BROWN, Mrs Margaret Mary, Chairman, State Study and Investigation Committee, Country Women's Association of New South Wales

BULLOCK, Ms Michele, Acting Head, Payments Policy Department, Reserve Bank of Australia

CHANDLER, Ms Jenni, Chief Executive Officer, Reconciliation Australia

CONNOLLY, Mr Chris, Director, Financial Services Consumer Policy Centre, University of New South Wales

GALLAGHER, Ms Lynne, Director, Wealth Management, Australian Bankers Association

GAMBLE, Mr Rohan David, Managing Director, Virgin Money Australia

LAWLER, Mr Luke, Senior Adviser, Policy and Public Affairs, Credit Union Services Corporation (Australia) Ltd

PETSCHLER, Ms Louise, Head of Public Affairs, Credit Union Services Corporation (Australia) Ltd

TOMS, Mr John Neville, Chief Executive Officer, Australian Settlements Ltd, and representing Australian Association of Permanent Building Societies

VEALE, Dr John Michael, Acting Assistant Governor (Financial System), Reserve Bank of Australia

WOLTHUIZEN, Ms Catherine, Senior Policy Officer, Financial Services, Australian Consumers Association

CHAIRMAN—I call the committee to order. We are here today to take evidence relating to the committee's inquiry into the availability of banking and financial services in rural, regional and remote Australia. The focus of today's hearing is on ATM fees and charges.

Before we commence taking evidence, I reinforce for the record that all witnesses appearing before the committee are protected by parliamentary privilege with respect to the evidence provided. Parliamentary privilege refers to the special rights and immunities attached to the parliament or its members and others necessary for the discharge of parliamentary functions without obstruction or fear of prosecution. Any act by any person which operates to the disadvantage of a witness on account of evidence given by that witness before this committee is treated as a breach of privilege. These privileges are intended to protect witnesses. I must also remind witnesses, however, that the giving of false or misleading evidence to the committee may constitute a contempt of the parliament.

The hearing is taking the form of a roundtable discussion. Committee members may direct a question to a specific witness or ask a general question, to which anyone at the table is invited to respond. At the end of the discussion I will invite a general summary of views, to which you should limit your statement to a few minutes. We might start proceedings with a brief report on the work of the ATM industry steering group which has been looking into the interchange fees matter.

Mr Bell—As well as being the Chief Executive Officer of the Australian Bankers Association, today I am also representing a broader segment of the financial services industry, namely, the ATM industry steering group. That comprises banks, building societies, credit unions and independent ATM deployers and payment systems providers. In the next five to 10 minutes I would like to outline briefly the background to the proposed reforms, the process as it currently stands and the benefits as we see them.

In terms of the background, the committee will probably be aware that in October 2000 the Reserve Bank and the ACCC released a joint study entitled *Debit and credit card schemes in Australia: a study of interchange fees and access*. In its review of the ATM networks, the joint study stated that cardholders using institutions' ATMs, known as 'foreign' ATM transactions, were, in many cases, paying substantially more than the cost of the service, which raised questions about competition and ATM charging.

The Reserve Bank and the ACCC, as well as this committee, asked the ATM industry to consider a direct charging system for foreign ATM transactions. This would replace the existing bilaterally negotiated interchange fees between card issuers, acquirers and ATM owners and operators.

The AISG, which is a group that has been put together to look at this from the industry point of view, is currently in the process of developing a direct charging model. The proposed model will, firstly, reduce interchange fees to zero; secondly, allow card issuing institutions, as well as ATM operators, to have a direct charging relationship with the consumer; and, thirdly, provide real-time fee disclosure on the ATM screen for the ATM operator fee, allowing consumers to opt out of the transaction at no cost.

The joint study noted that the benefits of a direct charging model could include: firstly, encouraging transaction fees more in line with costs and promoting transparency; secondly, providing an incentive for ATM owners to place ATMs in higher cost locations—for example, remote locations—offering greater convenience for customers willing to pay; and, thirdly, making transaction charges obvious to ATM users.

With respect to the process so far, the first step to this process for the AISG was to work through the key elements of the Reserve Bank and ACCC recommended reforms and to develop a proposed direct charging model. The second step was to initiate a community consultation process, and this included the release of a discussion paper on 3 March this year, published on the Reserve Bank web site, as well as discussion with various stakeholders, including consumer groups, Treasury, regulators and politicians.

The AISG is currently in the third phase of the process. It is working through the feedback received from the consultation process and is preparing an authorisation application to be lodged with the ACCC; that is, the industry will ultimately need to receive ACCC approval if it is to reduce interchange fees to zero. This approval will only be received from the ACCC if it is satisfied that reforms are likely to lead to a net public benefit.

The ACCC authorisation process is a public process that will give all interested stakeholders ample opportunity to provide written submissions, as well as appear before public hearings. As we have seen with the second tranche of the Reserve Bank interchange reforms, namely, EFTPOS interchange reforms, all stakeholders have had ample opportunity to provide comments to the ACCC authorisation process, and this process has taken more than eight months and is yet to be finalised.

In terms of the public benefits and key issues, by replacing the interchange fee with a direct charging model, the ATM industry believes that Australian financial services customers and the wider community will benefit. These benefits are essentially threefold: firstly, pricing transparency—ATM owners will be required to notify users of the service fee before an ATM transaction is undertaken; secondly, cost reflected pricing—the proposal will provide incentives for ATM owners to better align user fees with underlying costs; and, thirdly, rural accessibility—the proposal will encourage more rural ATMs by improving ability to cover costs.

As with any reform initiative, the ABA believes public debate and consultation are important to ensure that all costs and benefits were identified and, of course, we look forward to discussing these matters further here today. Thank you, Chairman.

CHAIRMAN—Thank you, David. I know that Rohan Gamble has to go to a meeting at 4.30 so would you like to make some initial comments? I know that you are hoping to come back later but you have some views on transparency and so on; it might be appropriate for you to make some brief comments before you have to go and then enter into the discussion later if you are able to come back.

Mr Gamble—By way of opening remarks, as a new entrant into the credit card industry in particular, we believe that there is a strong lack of transparency in the industry at the moment. In our view, there should be a lot more transparency and up-front honesty in charges. We have seen card issuers significantly increasing fees and charges over the past two to five years. It is getting to a situation where we believe it is currently very difficult for consumers to understand the full cost of credit cards and that many of those charges are currently hidden in the fine print. We would encourage the industry to take greater steps towards transparency in advertising literature, web sites and promotional materials. We are certainly encouraging and pushing for much greater transparency and honesty from all card issuers.

CHAIRMAN—Mr Gamble, in terms of the abolition of the interchange fee, do you see that as a positive but not sufficient step? What is your reaction?

Mr Gamble—Our product at the moment is a credit card, so it is not particularly related to the current discussion. We are more familiar with the details of credit cards. Anything that increases transparency and makes it easier for the consumer to see where the fees and charges are and to make decisions for their behaviour based on that I think is a positive step.

CHAIRMAN—Have you got any specific proposals in mind with regard to transparency—how it should operate and what needs to be made transparent?

Mr Gamble—Yes. We would propose something that is in the credit card industry in the UK and the US—the concept of an honesty box where there is greater transparency and a requirement for all card issuers to clearly and openly advertise all of their fees and charges on all literature, so that it is not a case of fees and charges being hidden in the fine print. We would propose that it be legislated as a requirement to openly advertise all fees and charges in all materials.

CHAIRMAN—Thanks. Dr Veale, do you want to give us an update on the Reserve Bank's position?

Dr Veale—Sure. It might be useful if I were to pass around a little note that we have prepared, mainly because it has a graph on the front that I would like to refer to.

I guess it is worth going back a couple of years to the joint study that we produced with the ACCC, which David Bell referred to a few moments ago. The substance of the joint study was that, when a customer of one financial institution used an ATM that is owned by another financial institution to withdraw cash, they were paying fees that, as best we could judge, were not terribly well related to the cost of providing that service. It is important to note that our interest here was quite narrow. It was an interest in a customer withdrawing funds from somebody else's ATM. We did not investigate in any way, shape or form the cost involved in a customer withdrawing funds from their own ATM or the charging regimes for that. That is a quite separate matter that we have not looked at.

When we looked at these transactions that involved people withdrawing funds from somebody else's ATM, we found three interesting numbers. The first is on the graph there—the cost per transaction. On the basis of the data that was provided to us, it was costing financial institutions just under 50c to provide that service. That was a combination of the cost of putting in the machines, the rental, telecommunications, cost of holding the cash there, servicing the machines—all those sorts of things. It is clearly not reasonable for somebody else's ATM to be supplied free to a customer of another bank because they do not have a relationship with the customer. What had developed was a series of interchange fees whereby the ATM owner would charge the cardholder's institution an interchange fee, which averaged about $1, and had done for a very long time. Those fees were then passed on to customers in the form of foreign ATM fees and they were debited to people's accounts after the event.

What we found, of course, was that the gap between the 50c cost of providing the service and the average of about $1.35 that was actually charged to people was quite a large gap. We had trouble seeing that that was justified. More particularly, we could not see that there were any competitive forces that were likely to drive the two numbers closer together; in other words, that were likely to put downward pressure on foreign ATM fees. The reason was that the card issuers—the cardholders' banks—had no incentive to say to the ATM owners, 'We want you to lower the fees,' because the cardholders' banks in turn simply passed those fees on to cardholders and added a margin to it in the form of the foreign ATM fee.

The cardholders, in turn, really had nothing they could do about it because it did not matter which ATM they used, they were going to be charged the same foreign fee. So there were no competitive pressures. We looked around to see how else you might be able to organise this. At least one way that we came up with was a direct charge whereby, if the interchange fee were abolished and the ATM owner were to charge the cardholder directly, if the cardholder did not like the price at one ATM, they would always be able to go to another. Provided there was a line of people willing to put in ATMs in different parts of the country, that would at least put on some competitive pressure.

We thought it made good sense to at least look at that. Since then we have done a bit of work on what is going on in other countries, and we reported that in our Payments System Board annual report this year, and I think that is what led to our invitation to come and join you today. What we found is that, when you look at the United Kingdom, the United States and Canada, there are some fairly clear lessons that seem to come out of the experience in those countries. In all three countries, when there has been a direct charge levied, you find that there has been an increase in the number of ATMs. You also find, interestingly, that customers—cardholders—group themselves into two groups. The UK is a good example. In the UK, ATM systems are operated centrally by an organisation called Link. Link has a rule that says that an ATM owner can either have a direct charge or they can receive an interchange fee, which is agreed centrally.

The interesting thing about the UK is that, although about 25 per cent of ATMs levy a direct charge, and those charges are over a pound, only about 2½ per cent of people in the UK actually pay a direct charge. What you can see happening in the UK market is that the bulk of customers are not paying a direct charge; they are finding other ways to withdraw money—perhaps from their own ATMs or from ATMs that do not levy a charge. A relatively small number of people are paying the charge, presumably from choice, because most of the other people are not paying any charge at all. What you are finding, I think in the UK and in the other countries at which we have looked—and the details are in this note—is that there have been more ATMs as a result and a relatively small number of people paying charges. But the implication I think you can draw is that the bulk of people do not need to pay more if they do not want to; those that want to pay a little bit more for the convenience do so. That has largely been the result. That is basically what we have found and that is the basis for the comment that appeared in our annual report.

CHAIRMAN—Dr Veale, could I ask you to read into the *Hansard* record the title of that document?

Dr Veale—Sure. The title is *Paying for using a foreign ATM*.

CHAIRMAN—Senator Murray, can you move that we accept this document as a submission?

Senator MURRAY—So moved.

Mr HUNT—I second the motion.

CHAIRMAN—It is so ordered. Do any of the other groups represented here wish to make a brief response to the comments of Mr Bell and Dr Veale before we move to questions?

Mr Lawler—I would like to make a very short opening statement from the perspective of the credit union industry. CUSCAL is the peak body for the majority of Australia’s 181 credit unions. The credit union sector has a strong tradition of working with and supporting country Australia. We estimate that one in five residents in country Australia are members of credit unions. The credit union network of ATMs is known as the Rediteller network and around 30 per cent of those 1,400 credit union ATMs are located in country and regional areas.

CUSCAL is a member of the ATM industry steering group and we have participated in its work to date and in the lead-up work to the formation of that group. We accept the problems identified with the current interchange arrangements that have been set down by the Reserve Bank and the ACCC in their joint study. We are broadly supportive of the need for reform, though we do see some complexities for smaller institutions. We could not support any reform that would lead to any significant disadvantage for particular communities.

We are particularly aware that a direct charging environment could carry unintended competitive risks by giving more market power to larger institutions with large ATM networks. So we are working within the group to ensure that the final shape of the reform proposal does not harm the competitive position of credit unions, and we think we can get that outcome. What that means, effectively, is that we want to be able to continue to offer an aggregated credit union ATM network so that credit union members can have access to a direct charge free national ATM network, just like a customer of a big bank. Our key aim in this process is to ensure that credit union members continue to be able to receive fairly priced, competitive ATM services.

I emphasise that this reform process is voluntary but it is driven by the markers set down by the regulators—that is, the Reserve Bank and the ACCC. The Reserve Bank has made it clear that it will intervene if industry does not deliver this voluntary process. From CUSCAL’s point of view, this process is following a similar path to that taken by the EFTPOS group. In that process, to our shock and disappointment, the ACCC did what we consider to be a back flip on EFTPOS reform and delivered a draft decision that effectively said that the reform it called for in October 2000 was no longer good enough. The state of play there is that the EFTPOS group is attempting to respond to the ACCC’s concerns and we await the final decision on the EFTPOS reform process. But the point I make is that it is very hard for industry to deliver on a voluntary reform process if a regulator moves the goalposts.

Mr Toms—Thanks for the opportunity, Chairman, to represent the interests of the permanent building societies. Rather than presenting a major positioning statement, I will put before you one item in terms of identifying where building societies are coming from. By the time I have finished, I hope you will see that I am in fact coming from both a consumer and institution side, if there is indeed a difference.

Building societies are very regionally based. Yes, there is a joint collection of ATMs but, in general, we would still see other building societies’ ATMs, whilst connected, as still being foreign ATMs. The building societies’ customers have a habit of travelling and need access to funds—probably more so when they are travelling than when they are at home. The percentage of building society transactions is probably at least fifty-fifty, so 50 per cent at their own ATM and 50 per cent at a foreign ATM. Indeed, that ranges right up, in some institutions’ cases, to 30 per cent of ATM transactions at their own ATM and 70 per cent at a foreign ATM. This means that society sees this from a perspective of having ATM owners and, therefore, an interest in the costs and efficiencies and so forth of providing real-time fee disclosure. But they also see it from the viewpoint of not wanting their customers to leave because they have more limited ATM networks, so they need to have a competitive marketplace for foreign ATM transactions because, at the end of the day, someone pays for it. If the institution pays, it comes out of someone else's pocket. It comes out of the general coffers but it gets passed on. So the building societies have a considerable interest in the outcome of the ATM reform from the viewpoint of the cost ultimately to the customer. They do not want customers leaving because they cannot provide a national ATM network.

We are in agreement with those things that have been said before. We are certainly a keen part of the reform process for this and for EFTPOS. We also feel very keenly the absence of EFTPOS reform because at this stage we are taking a loser-loser position, so I look forward to that coming along. From our viewpoint, we therefore have an interest as an ATM owner and we have a keen interest in the fees that are charged from an ATM network from a consumer's viewpoint as well.

Mrs Brown—Flicking through the Reserve Bank handout, while the changes in the United Kingdom seem largely positive, if one reads on and looks at the United States and Canada—which are more reflective, I think, of our geographic conditions in Australia—very high prices are charged when the owner of the ATM and the owner of the account, I suppose, are allowed to charge. If you flick over to page 4 of that handout, if ATM owners are permitted to receive interchange fees and charge the customer directly, many will do so. This can result in some very high fees being paid in total at some ATMs. My concern for our association would be that the area I represent, in terms of regional, rural and remote New South Wales, would be those very areas where people would pay very high ATM fees.

Mr Connolly—Thanks very much for the opportunity to attend the roundtable. The Financial Services Consumer Policy Centre has been involved for some time in representing consumer interests in all of the payment systems reforms. The committee's current inquiry is into regional banking services, and I think it is important that I focus on those today rather than on the broader payment systems reforms.

Our concern is that the economics of individual ATMs are not a good starting point for reforms for regional consumers because the Reserve Bank proposal is that each stand-alone ATM will make a profit and not a loss. Of course, that ignores the long history, of which this committee will be aware, of the transformation of banking services in regional areas. In fact, the real economics of ATMs is that, by putting in an ATM, banks have saved a lot of money because they have closed branches or reduced the amount of staff in branches. The economic benefits of an ATM for a bank come from cost savings in staff and real property and not from that individual ATM making money on every transaction. So for that pure economics theory to work, you are ignoring the entire history that this committee's work has been focused on recently.

In essence, what they are asking the regional consumer to accept is that fees will go up for ATM use in regional and remote areas. That is a fundamental pillar of the reforms. As a result, for city customers, they will pay lower costs and they will have a better class of ATMs. They will be full-service ATMs where you can make deposits, they will be loaded by armed security vans et cetera, they will be reliably maintained and available 24 hours a day, seven days a week, because they are on the street front. Regional customers will get higher prices but, in exchange, they will get a lesser quality ATM, usually a very small physical ATM located inside a convenience store or a service station—and therefore not available after hours once that service station or convenience store is closed. It will not be reliably maintained, and it will be filled by the service station attendant et cetera. This is looking more and more like discrimination against regional customers who have already paid over and over again in terms of the reduction in and transformation of banking services through branch closures.

I think there is a real fear here that all of the other benefits which we might see from some of the reforms and initiatives that the committee has looked at—rural transaction centres, community banking and other initiatives—might be undermined by this reform because this is discrimination against regional and rural consumers, whereas some of the other reforms have been going the other way. The cost of these transactions is likely to rise, very quickly, to $5, $7, or even $10, a transaction for regional and remote consumers, and they will be unregulated.

One of the proposals we put to the parties in the early stages of these reforms was that if the regulator and the industry are so confident that overall fees will fall, then fine, let us offer that as a guarantee, put it in legislation or in the ACCC authorisation. But that has been refused and there is no acceptance of price monitoring or price capping in the reforms. So we do not agree with the economic assumptions and we do not trust the outcomes as being at all in favour of regional consumers.

Ms Wolthuizen—I might add to what Chris has said. There is concern not only about the impact on regional and rural consumers—this model assumes that they will pay directly for the costs of the individual ATMs located in their communities—but also there are assumptions in the model about consumer behaviour that we believe will not be borne out in experience in built-up areas. The other side of this model assumes that competition will develop to such an extent in urban areas that we will see lower prices for consumer use of ATMs in built-up areas, in urban locations, where more than one ATM may be located in a particular location.

We do not see that there has been the behavioural analysis done of how consumers act in relation to shopping around for ATMs. We do not anticipate that consumers will operate in that fashion. In fact, with respect to any anticipated benefit in terms of lower prices for foreign ATM transaction fees that might eventuate in urban areas—very much at the cost of regional and rural consumers—we doubt that that benefit will be realised. Not only do we identify a substantial detriment to large numbers of consumers, but also very few positive outcomes for those who might otherwise might expect to get lower ATM fees.

Based on what the steering group has told us about the adequacy of disclosure that would underpin this model, with respect to the technical capacity of ATM terminal operators to disclose to consumers at the point of the transaction the full cost of that transaction—that is, the costs charged by the operator of that ATM plus the costs that the consumers’ own bank will charge them—we are concerned they are not going to get the full price of the transaction at the point of the transaction, thereby again constraining any capacity to shop around.

There is going to be a decoupling of fees, of course, in that there will be two fees a person will pay every time they use a foreign ATM and the great capacity going forward for both those fees to rise in the future, leading to future higher costs for foreign ATM access. Where there have been any assurances provided or any expectations cited that fees will come down in the future, these appear to be informal assurances provided to the regulator rather than anything inherent in the operation of this model. That, to us, is no assurance at all.

When we look at overseas experience with this particular model we see that the very extreme resentment, resistance and backlash by consumers and communities in certain states in the US and in the UK generally have seen very much a return to a central interchange network model—in certain states in the US and in the UK generally—due to the extraordinary unpopularity and the perception and experience among consumers in those countries that they are indeed paying higher costs and not lower costs.

As has been alluded to by some of the smaller institution representatives here, there are very alarming potential impacts on smaller operators in this market. Certainly the US experience demonstrates that those institutions with large networks are in a position to exploit and increase that market power to the extent of near monopolies in some areas. We would expect this would also give rise to capacity for predatory pricing by those institutions with very large networks in Australia to particularly target the customers of smaller institutions.

If one of the aims of this particular reform is to enhance the scope of a consumer to access a broader network, in fact, consumer behaviour has tended to be that where there are price barriers introduced in the form of higher fees for foreign ATM access, in reality, a consumer’s access to a broader network is actually reduced; people restrict themselves at inconvenience to their own bank networks, which of course favours those institutions with large networks and actually effectively reduces access for consumers. This is why we have indicated our strong concern about the likely impact of these reforms, both on regional and rural consumers and on consumers generally.

Ms Chandler—I think that Indigenous people generally may have some issues with this matter, but the remote Indigenous are the people that I would like to talk particularly about today. Many of these people are not sufficiently literate in English, for a start, and many are fundamentally disadvantaged, so there are issues, I think, in terms of access. They do not have the luxury of patronising a less expensive ATM because, in many instances, there is no less expensive ATM; there is only one, and invariably it will be a foreign ATM for them as far as their bank is concerned. So they are paying very expensive fees now and my concern is that, as Chris Connolly mentioned, prices will rise quickly and be unregulated and that Indigenous people will therefore be, in many respects, paying or subsidising fees that are cheaper elsewhere.

In terms of getting access to funding, there is the question of what is a transaction. I notice that the media release talks of ATM withdrawals being a transaction. My question is about whether or not getting an account balance is a transaction and therefore incurs a cost. One of the difficulties for all consumers, but particularly for Indigenous people, is that they do not know how much money is in their accounts. All of us often have this problem because one of the things that happens with accounts is that banks take their fees out and they take them out when it suits them, and you may or may not be aware that that has happened. So your account balance, even if you are keeping a good eye on it, may not be what you think it is. If you are not sufficiently literate in English or you are financially illiterate, then your chances of knowing your account balance are even less.

The issue of whether or not there is a fee for finding an account balance I think is one that we really should explore some more. The fee for taking out cash is another issue. This proposal might well be one whereby ATMs could become economical to be placed in more remote areas so it might be that they become available for people where they were not located before, but my concern is that the cost will be far too great.

The Reserve Bank mentioned that where this has happened overseas, people have often found alternative ways of finding cash and therefore avoiding the charges through the ATM. Again, in a remote community, that is not necessarily an option or, in fact, the option might be even more expensive through EFTPOS because the EFTPOS merchant can charge what he or she likes, and often does. Often there is a charge of $3 or more for Indigenous people getting cash through an EFTPOS situation. Of course, they cannot find out their account balance in that way. They are the major issues that we would have regarding Indigenous people, because they live remotely, being charged excessive fees.

Mr Bell—Mr Chairman, would it be worthwhile if I briefly responded to some of the things that were raised here? That would give the committee the chance to think about the questions.

CHAIRMAN—Yes.

Mr Bell—I think what we need to do is probably address the central question, which is: will rural customers pay too much for foreign ATM transactions? That is what people have been talking about here, which is a fair enough question.

The first point we would make is that differential pricing is not a feature of today’s banking system and has been so since the deregulation of the banking system in the eighties. That is a feature of our banking system currently. In terms of constraints that will ensure that banks, building societies, credit unions and other deployers do not charge rural customers excessively for ATM transactions, there are probably at least four that we should mention. One is that the costs of providing ATM services in regional Australia really are not that much different from providing services in non-regional Australia. Yes, rent may be less in Wagga than in Collins Street, but there are different pricing factors that make them fairly equivalent.

The second thing is that, if pricing is too high, customers these days have other options for withdrawing cash. They can go to other ATMs, EFTPOS and giroPost, so there are other competitive factors that would militate against excessive fees or even fee hikes. The third, of course, is low barriers to entry. There is a very vibrant ATM industry out there. Banks do have a lot of ATMs but there are thousands of third-party ATMs out there and they are there for one reason: because there are low barriers to entry. Finally, there is the whole issue of reputation. Financial institutions will, of course, need to demonstrate that prices are fair and reasonable and represent value for money.

Those would be our responses to some of the points that were raised here. The other point I would like to make is that there has been some discussion about comparing the direct charging proposal to the US-UK model. The US model is nothing like what has been proposed here. In the United States system there is the ability to surcharge and to charge an interchange fee. That is not what is being proposed here. The UK system is different again.

CHAIRMAN—Thanks, Mr Bell. Dr Veale might be the first person to respond to my question. It is really just seeking some clarification as to what has happened in relation to cards. Perhaps I can give my understanding and then you can correct me or confirm that it is correct. As I understand it, there are two types of cards that are made available to customers: a transaction card which banks issue, which allows you to use an ATM or EFTPOS facility; and credit cards, which allow you to do both of those and also purchase from merchants on a credit card basis as well. Is that correct?

Dr Veale—It is important to distinguish between a physical card and the functions it allows you to undertake. It is probably better to think in terms of the functions that the card allows you to undertake because you can package them pretty much however you like. It is worth thinking of a card that allows you to withdraw funds at an ATM, to conduct a debit card or EFTPOS transaction to buy goods at a shop, or a credit card that provides you with a line of credit. There is a further complication but we probably do not want to get into that as well, but they are the three main things that I think we are talking about here today. We are focusing here on the first of those functions: the ability to withdraw cash from an ATM. That is pretty close, in a lot of functional ways, to the ability to get cash out as a result of an EFTPOS transaction, so we are probably going to veer into that area as well.

CHAIRMAN—Is the only change that the Reserve Bank has made the abolition of the interchange fee in relation to either of those cards?

Dr Veale—We have not made any changes. What we have done is raise a problem that we thought needed to be addressed and the banks are responding to that problem. We do not have any great problem with the way they are responding to that problem, I have to say. The proposal that is on the table is to get rid of the interchange fee—

CHAIRMAN—The fixed?

Dr Veale—The fixed $1 transaction, so that somebody that runs an ATM—an ATM owner is probably the best way to think about it—will not automatically get that $1 for every transaction, remembering that their costs are roughly half of that. What they will now do under the proposal is that they will have to convince the customer that their ATM is the one that they should come to, and set a charge that the customer is prepared to pay. They will not automatically get $1; they will have to fight for every cent.

CHAIRMAN—Is there any change in relation to EFTPOS transactions conducted with merchants?

Dr Veale—No, not in this respect. That is not the proposal that is on the table here. There is a separate proposal to deal with that. David might like to speak to you about that. That proposal is currently before the ACCC for consideration.

Mr Bell—Which was mentioned before.

Dr Veale—Yes.

Mr Bell—We are in the process of dealing with that separately to this.

CHAIRMAN—Can you clarify for me, if that is the only change that is being made, and in fact there will still be a fee able to be charged but it will not be a fixed fee, why are the banks or the credit card issuers making changes in relation to their credit cards in terms of the changes to the frequent flyer points and abolishing the monthly fee on your bank account that is attached to your credit card?

Dr Veale—I can help with that one as well, I think. There are three pieces of work here, all of which originated from this one document. They address those three payment streams: ATMs, which we have been talking about; EFTPOS, which we have referred to; and credit cards, which we have not dealt with at all today. What happened with credit cards was that the Reserve Bank decided to formally use its powers under the Payment Systems (Regulation) Act, which was introduced following the Wallis reforms, and that change will do three things—two of them have happened.

The most significant happened last Friday when interchange fees—these are fees effectively paid by the merchant’s bank, in this case, to the cardholder’s bank—were almost halved; from just under one per cent to, on average, about 0.55 per cent, or something of that order. That has meant that card issuers receive lower income. It also meant, of course, that card acquirers—that is, the banks that service merchants—have lower costs because they are paying less to the issuers. That has two effects. One is that the costs that are being incurred by the banks that are providing the services to merchants have gone down, so banks have been renegotiating the charges that they levy on merchants. David might be in a position to say something about that on behalf of his members. On the other hand the card issuers are earning somewhat less income as issuers because the merchants effectively are not paying as much. Some of the banks have renegotiated their deals with the cardholders. One of the renegotiations is the rewards schemes, for instance, that they offer.

CHAIRMAN—They have not negotiated; they have just advised that it is happening. There has been no negotiation.

Dr Veale—But, of course, the card holder has the ability to move to another bank, if that is what they choose. The second important change was to allow all merchants to charge customers a fee for accepting a credit card, if that is what they chose to do. That came into effect on 1 January. There have been some merchants who have done that. There have been a lot of merchants that have managed to use the threat of doing so to renegotiate their merchant fees with their banks, and that is putting downward pressure on the cost of accepting credit cards that merchants pay.

The third reform is one that is still to be finalised, and that is with respect to improving access to the credit card schemes. We hope that will be finalised in the next couple of months. The idea there is to allow organisations other than the traditional banks, building societies and credit unions to become members of the credit schemes in order to put, again, more competition into the issuing side of the credit card business. That is a separate raft of reforms that has been going on.

CHAIRMAN—You said the interchange fee between merchant and provider had been removed and that had halved the cost to the merchant.

Dr Veale—Not quite. Let me go through a couple of numbers, if I may. The interchange fee paid between acquirers and issuers was about one per cent of the value of every credit card transaction. Every time you went into a shop and used your credit card, your issuer received an income stream equal to one per cent, roughly, of the amount that you spent. That, of course, was paid by the bank whose merchant accepted the card; that bank would, in turn, pass that on to the merchant in the form of the merchant service fee.

So the way the structure of the industry was working was that merchant service fees averaged a bit under two per cent; interchange fees averaged a bit under one per cent. We have almost halved those interchange fees and we expect that that will be passed on, in full, to merchants in the form of lower merchant service fees. That process has only just started because it came into effect last Friday, so that is very new. We are still to see that wash through the system.

CHAIRMAN—Given that, in effect, the merchants' costs have been reduced, why would there then be a need to allow merchants to charge a fee to the customer?

Dr Veale—There are a couple of reasons. Some merchants still pay very high fees. Some of them will still be paying fees of three and four per cent despite those reforms. What the banks do is to add their costs to that interchange fee and charge that to the merchant. It did average just under two per cent but the range was from close to one per cent to around three and four per cent.

The other important part of that reform has been to allow merchants to charge a fee for accepting American Express and Diners Club cards and they have, on average, slightly higher fees again. So merchants are now in a position, where the costs are very high, to say to the cardholder, 'Look, I'm prepared to take your card, but I'm sorry, the costs are this high and, if you want me to take that particular card, I'm going to have to ask you to pay that cost.' They are giving the cardholder a choice. They are saying, 'If you want me to take that card, I'm going to have to pass that cost on to you; if you want to pay another way, that will be fine as well.'

CHAIRMAN—One assumes that, even with the reduced merchants' fees, the banks will still be making a profit out of the fees they charge the merchant.

Dr Veale—Again, that is a matter for the banks.

Mr Bell—It is hard for me to comment on individual bank's pricing policies, but they do provide a service to the merchants. When go to a merchant, you can see the terminal there, the convenience et cetera, so yes, they provide a service; that costs money. Of course, when you provide a service there are things like costs of capital that you have to cover.

CHAIRMAN—It seems to me it would still be in the banks' interest to maximise the use of cards with merchants and encourage people to spend money with merchants.

Mr Bell—It is a two-way benefit; merchants also benefit.

CHAIRMAN—Sure.

Mr Bell—It may attract customers by providing these facilities. Banks, like any other business, seek to offer their products and services and seek a return from that.

CHAIRMAN—Would you agree that the more volume that goes through a card, the better, from the banks' point of view?

Mr Bell—Like any product and service, yes.

CHAIRMAN—So why are the banks discouraging the use of cards above a certain amount each month now in terms of the rewards points they provide?

Mr Bell—That is a different part of the equation.

CHAIRMAN—It is saying to the person who has the card, 'Only spend $2,500 a month on this card, no more, because we're going to scale down the rewards you get above that.'

Mr Bell—The interchange fees pay for real services; they also pay for various loyalty schemes. With the reduction of the interchange fees, something has to give, and there has been an effective cost shift from retailers to customers.

Senator WONG—Because of estimates commitments, I am afraid I cannot stay for the entire meeting. Dr Veale, I want to try to get to the nub of the issue that concerns the inquiry that we are looking at at the moment. I wonder if you could comment on some of the concerns that have been raised by what one might call those at the consumer end of the table and, in particular, what is your view as to the effectiveness of the four constraints on excessive fees in regional Australia that Mr Bell outlined? Whilst I appreciate that that is Mr Bell's organisation's position, the perception—and I do not want to place it any higher than that for the purpose of the discussion—on the part of most consumers is that the constraints he articulated are ineffective in dealing with excessive fees.

Dr Veale—Can I answer the question in a slightly different way.

Senator WONG—Answer however you want, Dr Veale, but I would be interested in what your view is regarding these constraints that the ABA is holding out as its position on why this is not going to lead to excessive fees for certain groups of consumers.

Dr Veale—I think the thing to do is to start with where we are now and ask ourselves: how will the market evolve from where we are today? The way to think about this is that, if the interchange fee is $1 at the moment, the ATMs that are out there must be being financed at the cost of $1 per transaction because that is the income that is generated or sent to the ATM owner.

Senator WONG—As a result of the bilateral agreement.

Dr Veale—Yes, that is what they are getting now. Clearly, some ATM owners are going to have other motives for putting them there; there is no question about that. Some banks will have the ATMs there because they think it is convenient to put the ATM out there and to reduce the number of staff that they need to have in a branch. That is a commercial decision that they have made, so they will have other motivations.

Leaving aside those questions, the range of ATMs that are out there now are constrained by this $1, on average, transaction income flow. If you have an arrangement whereby at the moment there is a location where the cost of putting the ATM is currently $1.50—

Senator WONG—There must be an element of cross-subsidy in the system currently. That is essentially what you are saying, isn't it?

Mr GRIFFIN—That is not what David said.

Dr Veale—No, what I am trying to say is that what we need to look at is today's starting point and how the system might evolve if you had a direct charging regime. What I am trying to do is to start off where we are and see where we might end up, which I think is the relevant question to ask. Under the current regime, given all the arrangements that banks have and the reasons they put ATMs out there, there is still the fundamental thing going through this that the maximum revenue that a new ATM deployer can earn is $1. At the moment, even a non-bank ATM deployer is going to be paying some of that to a bank somewhere to get into the system. There are places around the countryside where it has not paid anybody to put in an ATM because of this $1 constraint. If somebody can now charge $1.50 and says, 'Yes, it's now worth my while to put an ATM in there'—

Senator WONG—You make that point quite clearly, if they pay people. Cut to the chase, Dr Veale. That is one argument—that new ATMs will be placed now under a system of direct charge because people will be able to charge more where currently it is not viable for them to do so. That is one issue. What I am more concerned about is the existing ATMs—for example, those in an Indigenous remote community or somewhere in western New South Wales—where the actual cost of providing that service is $1.50 or $2. If we move away from the system, what you will get is increasing prices in those areas.

Dr Veale—Let me respond directly to that question. At the moment, if that is a foreign ATM transaction, there is no constraint on the foreign ATM fee. It is underpinned by the $1 interchange fee but there is no constraint at all on what charge the bank levies; it is a matter for the bank and their customer. That is why I think it is important to say what the system looks like now because in that respect that will not change.

Mr GRIFFIN—Just on that question of what is the actual cost of provision—I think that underpins all of this, because it also asks the question as to what is going to be the cost of a roll-out et cetera—David, you made some comments around that question about cost of provision currently being pretty much the same regardless of where you go. Can you walk us through that so that I am clear about why that in fact is the case, just so we can get a better understanding of that.

Mr Bell—It is going to be very hard for me to give absolutely specific detail because I am not privy to individual bank's cost data, nor their pricing policies, obviously; as an industry association we do not. In simple terms, clearly, the rent in Wagga is going to be less than in Collins Street. However, the throughput in Collins Street is probably going to be more than in Wagga and probably the things will balance out. But I would have to take that one on notice; I just do not have that data with me.

Mr GRIFFIN—I think that is really important because a large part of the argument here relates to the question of whether cost of provision will lead to massive differences in terms of potential cost of provision versus the question of what people might charge on the basis of a lack of competition or in terms of greater access being provided. Again, to get to that point, what I am looking at is this: if the argument is that we will see a greater roll-out here because access will improve and your response is that cost of provision is much of a muchness, then in fact we should see access improve, one would hope, but not in a situation where there is any significant difference in charging. I would be interested in seeing if that is the case because I am struggling with that one, I have to say. When do you think you would be able to get those details?

Mr Bell—If I can get that detail for you, I will come back to you. I will have to see whether I can get it for you.

Mr GRIFFIN—Sure. I think it is central to what we are looking at here.

Mr Bell—The general economic argument is that if you increase the supply of ATMs, necessarily the price should drop. That is the general economic argument you should apply.

Mr GRIFFIN—The problem is we are talking about a general economic argument being implemented in areas where general economics is not necessarily what you go by, and that is part of the problem.

Mr Bell—The other thing I would stress is that we have had deregulation and competition in place for some two decades now and currently there is no differentiation—

Mr GRIFFIN—Those fees are going up, though, aren't they?

Mr Bell—Your point is differentiation between charging customers in country areas versus city areas and currently there is an equivalency of service.

Mr GRIFFIN—To pick up on that—third party providers and the nature of the roll-out of networks on that basis—does anyone see any implications around that particular issue in terms of service provision? To develop my point, we understand the situation of the four majors in terms of their attitude to differential fees, and I understand your acceptance of that is unlikely to change in the foreseeable future. The question I have, with respect to the deregulation in a situation where there seems to be a greater development of third party operators, is this: is this going to lead to a situation where we may get differentials, as we have had in other areas—provision of loans et cetera—which could lead to a situation where we might get greater differentials, particularly in those more restricted and remote areas?

Senator MURRAY—We do need to get back to that cost of the provision before we move on to something else.

CHAIRMAN—Dr Veale had a comment on that.

Dr Veale—I do not have the hard numbers either and I do not even have any members that have the hard numbers, but I can make some observations on the basis of experience in other countries, I think. What is very clear in other countries is that the off-premise ATMs—the US language—are accommodating a much lower average number of transactions than the ATMs that you see in bank branches.

In the US, for instance, the average number of transactions in off-premise ATMs is half the average transaction number in the bigger ATMs in bank branches. When you look at the numbers in the US a bit more carefully, what is happening is that, as the ATM market reaches out into smaller or more remote areas, you are finding smaller ATMs which can accommodate and still be economic with much lower transaction volumes; in some cases as low as, I would say, 600 a month—that is 150 a week, it is not a whole lot of transactions. They are some of the numbers you are seeing in the US, and even smaller numbers. Those sorts of ATMs are being complemented by a different business model where what happens is that the local pharmacist, for instance, recycles his cash by putting it back into the ATM. So you find a way of saving the pharmacist some money—he solves some transport problems—and he provides a service back to the customers by providing the cash. So there are ways in which, with different business models and smaller ATMs, you can get the costs down, and the technology is helping us here. Ten or 15 years ago, that was not on the horizon; it is now very much in evidence in places.

The other point that is worth making is that if the costs are low, somebody might say, ‘Well, that’s not going to stop somebody taking advantage of me and putting the prices up.’ Of course, if the costs are low and you have unrestricted entry to the market, and somebody does try to take advantage, then somebody else will come in and they will be able to make it a viable proposition. You have a number of things going on here that are underlying the increase in ATM numbers in other countries.

Mr GRIFFIN—Dr Veale, that presupposes, though, that when you are at that bottom end, where you are talking about smaller levels of transactions taking place, there will be players who will look at it and say, ‘Well, here where there is, say, a marginal profit to be made on the basis of an ATM, we will go in and instead have two unprofitable ATMs or have two ATMs charging significantly higher fees.’ So I do not think it necessarily follows totally.

Dr Veale—I understand the point you are making but I think we are talking here about the location where there was not an ATM before, which brings me back to the original point I was trying to make.

Mr GRIFFIN—It probably comes back to the issue, though, that competition in the context of remote and regional communities has always been a little bit of a moot point—to use the language that is currently running around the parliament. In those circumstances, we have to look very carefully at the question of whether that competition is likely to be there. Through this inquiry we have heard a lot about the question of what has occurred in regional and rural communities regarding banking services and the fact that we have seen huge changes occurring over the last few years.

We have seen some good evidence as we have gone along which would suggest that there have been some moves in a more flexible direction to deal with some of those issues, and we have seen a lot of evidence to suggest that probably the most cathartic aspects of that change have already occurred. What you are talking about here is another layer that I think is particularly significant and may not take into account normal competition policy, if you like.

Mr HUNT—Is this the trade-off? Effectively, what you are saying is that, in order to open new machines with a higher differential transaction cost than would be the case for a city consumer, you may also have an increase in the cost of ATM transactions in rural communities where there is one existing ATM, or something like that, so that is traded off. You are saying that you want to allow—I am not being critical; I just want to understand it—a system that will allow for a differential charging rate. The plus side of that is that in those areas where they have no ATMs, they may now have ATMs—a clear benefit. The downside of that is that in those communities where they have existing, maybe single, ATMs, and it would not be profitable for a second one to move in, to a certain extent they have a free hand to increase their prices. That is the dilemma.

Dr Veale—I understand the point you are making and I think it needs careful thought. I think that the game is changing and that technology has changed the game. I think that, 10 years ago, if you looked to see what was a viable ATM size, it would have been 20,000 to 30,000 transactions a month, something of that order; we can look up the numbers for you. If you look back 10 years, you would have to say, ‘Right, having an ATM in this town, it’s going to have to do 30,000 transactions.’ The technology today is very different. The number that is now viable is much smaller. There are towns 10 years ago that could have only supported one ATM. These days, different business models and technology mean that towns that could only support one ATM in terms of the number of transactions can clearly support smaller numbers and be competitive. So you have a change there. The two-person town clearly is an issue.

Mr Bell—Technology also means that, 10 years ago, you may not have had an EFTPOS facility in town so there is increased competition as well for—

Mr GRIFFIN—You would have had a bank branch.

Mr Bell—You would have had a bank branch and probably still do. But there are additional outlets where you can get cash out and have your banking facilities. So into Mr Hunt’s equation you can add competition and technology.

Senator WONG—Did you ever answer the question I asked you?

Dr Veale—I apologise, Senator, if I have not answered it. I am not sure that I will be able to answer all of it, but let me have a go. The first one was the suggestion that the costs are not necessarily different.

Senator WONG—Yes, it is probably more a matter for the banks.

Dr Veale—I have tried seriously to answer that one because I think the story is that, in a big city, you would expect to see high-volume ATMs; in small towns you would expect to see low-volume ATMs. The economics of running them are different; other costs will have different effects. The second point was that ATM pricing must also reflect overall retail payments pricing. There are other ways of getting cash. Some of them will be attractive, some of them will not; it depends on the environment there.

I think that there are low barriers to entry in providing ATMs in some respects, and the proliferation that we have seen of independent deployers is a good example of that in this country. As best we can judge, something like 30 per cent of ATMs in this country are now operated by organisations other than banks, although they do have to operate through banks, and that remains a question still to be addressed—access for new deployers. With regard to the question of financial institutions' reputations, I am not really sure I am in a position to answer that one. I think that is one I will have to put back to David.

Mr Connolly—Perhaps it would be useful to provide a consumer perspective on some of those issues and some of the other matters raised to defend against our fears of high or discriminatory prices for rural consumers. To cut through some of the theory, we should say that these issues have been discussed in a great amount of detail between the consumer and industry working groups over the last 12 months and we have put these issues quite directly to the industry working group. On differential pricing, it is true that there is no history of banks having differential pricing for transaction fees between the city and rural areas, so we have put directly to the industry working group that they should include that as a guarantee in their submission to the ACCC, and they have refused. The independent providers of ATMs—which Mr Bell refers to as 'thousands of them' and Dr Veale refers to as '30 per cent of all ATMs'—specifically do not want to see any restriction of differential pricing. They want to be able to differentially price so that they can charge higher amounts in rural, remote and regional areas, and that is, of course, as I mentioned before, one of the fundamental pillars of the reform as proposed initially by the Reserve Bank. Differential pricing will not be a great protection unless there is a guarantee against differential pricing in the authorisation, and there is still time for that to be included in the authorisation application and it is something that the consumer groups will argue for in the authorisation process.

On the reputation issue, again, 30 per cent of ATMs are independent, brand-less ATM networks where no consumer would even remember the brand or be able to distinguish between EasyCash, CashEasy, CashOut, OutCash et cetera. ATM branding is not as linked to bank or financial institution brands as it once was. On the issue of whether the costs are the same in regional areas as they are in cities, I think this is an issue that this committee has considered on numerous occasions, including in the *Regional banking: Money too far away* inquiry. Usually, the line from financial institutions is exactly the opposite: there are additional expenses in providing services in regional areas; banks have to spend more money to service regional customers than they have to to service city customers. I am sure the committee could look through some of the evidence and submissions presented to the inquiry in its various formats and see that usually the opposite proposal is made.

I think that our estimation is the correct one—that is, once this is unregulated and it is a free-for-all, the fees will go up, and unless there are guarantees and price monitoring put into the authorisation, then any theoretical discussion today about what might or might not happen will not help consumers once the reforms are put through.

My final point is this: Dr Veale mentioned that for some time we have had no regulation of the foreign ATM fee and it is stuck at around the $1.50 to $2 mark despite the interchange fee being $1. I point out that that model is based on a situation where no direct charging is possible. The fee has to be negotiated with customers and there is no way for the bank to know when they are negotiating the fee whether that customer is going to use a city or rural ATM. What you see with direct charging is that the rural ATM operator knows that they can get away with a higher price because this customer is in a rural area. That is a massive difference and there is no link between the current situation, where the fee has not blown out of control, and the situation once direct charging is allowed and ATM operators will know that they can charge higher amounts in rural areas.

Senator MURRAY—My instinct is that the issue is price and not cost. I was a bit disturbed at the vagueness of Mr Bell’s responses on cost because I would have thought it was not hard to establish. I can see no obvious or evident reason why the cost in the rural area should be higher than the cost in the city areas. For instance, with respect to the price of manufacture, I would like to know why that would vary from one to the other. The price of installation of the ATM I assume might be more costly where you have to send a person who has travelled several hundred kilometres to do it, so I can see that installation costs would vary. The price of renting space: that may or may not go up and down. The point Dr Veale has made is very pertinent: in more mature markets, ATMs are now being placed in retail premises—hotels, pubs, restaurants, all sorts of small places—and they are often placed free of rent. I would not expect automatically for there to be a price disadvantage in rural and regional Australia for rental.

Then you have to have the servicing of the functioning of the machine, the mechanics. That could be more costly in rural and regional areas, but whether the servicing of a machine in terms of replacing the paper so that the receipt slips are in or putting in the cash would be more costly I think depends upon the nature of the relationship that is attached there. Listening to what I have heard so far, I cannot see cost as the issue. Therefore, if we go to price, the danger that is being posited here is the danger of profit-taking and the fact that you are not able to regulate, in a competitive sense, price gouging going on. If that is the issue—deregulating to provide a more flexible market where a greater variety of services on different models can take place—if one of the dangers is then profit-taking or price gouging, then the obvious remedy, I think, is to address that in some way. It is not beyond the wit of governments or regulators to do that. I remind you of the GST implementation. The government said to the ACCC, ‘You will keep your eye on it,’ and by God they did. There was no price gouging or profit-taking. I think, Mr Bell, with respect to your earlier remarks, you have to be much more precise—

Mr Bell—Sure.

Senator MURRAY—along the lines of the areas I have outlined. We need greater advice or assurance on how profit-taking or price gouging could be prevented in areas where it is not easy for customers, either on the basis of Ms Chandler’s remarks—that they are unsophisticated customers—or in rural and remote areas, where there are not the opportunities to blow the whistle on bad behaviour.

Mr Bell—In terms of costs, I literally do not have the cost data with me, but I can tell you—and you have outlined some of them—that ATM costs are made up of several components, some of which you have outlined: operations, clearly; signage, switching and transaction processing; the cost of holding cash, locking, balancing and sourcing it; communications line rental, which you mentioned as well; installation; leasing; appreciation; maintenance costs; and, of course, rent. So those are clear components. I did make a statement that there is an equivalency between city and country ATM sites for different reasons, so from a cost basis there is likely to be an equivalency.

Pricing is something I cannot comment on because banks have different pricing policies, but again, I refer to my previous comments, which are that there has been a history of banks providing an equivalent service to their rural and non-rural customers. Banks are very mindful of their reputation in this respect and there is no suggestion anywhere that I have seen that there would be any difference in that regard.

Mr GRIFFIN—Just on that point: there is certainly equivalency on the question of fees. On the question of service delivery, part of what this inquiry has looked at in an overall sense is the fact that the banks have dramatically altered the nature of the service they deliver in rural and regional Australia over a number of years. Although there can be an argument about how effective that new service has been and the fact that new technology has allowed different alternatives, there is no doubt that an awful lot of people believe, and even the banks concede, that there are some services now not available in some areas. That has been an economic decision. We understand that, and that has been part of the deregulatory environment that we have been dealing with for quite some time.

The question is: is there a guarantee that we will not see differential fees in this circumstance? I think that is something that Chris Connolly mentioned earlier on that issue. From that question I mentioned earlier—which, again, is something Chris picked up on—relating to third party providers, there is the concern that third party providers may in fact use this as an option to increase their profitability by filling some measures. Also, with respect to the question of when we go through the future of the provision of ATMs, it is not unusual for banks and a range of other industries to contract the provision of different types of services and certainly one area where that may well become an option for the major banks is with ATM provision, I would have thought.

Mr Bell—As you would appreciate, it is literally impossible for me to guarantee any form of bank pricing; I think it would be against the law. I cannot do that.

Senator MURRAY—They would also fire you, I suspect!

Mr Bell—That is right.

Mr GRIFFIN—Excuse me if I get cynical when you say, ‘Trust me.’

Mr Bell—It is literally impossible for me to provide that guarantee. I have offered four strong reasons why I think there will be constraints to ensure that banks, building societies, credit unions and other third party providers do not charge rural and remote customers excessively for ATM transactions. For me, those reasons stand and are quite good reasons.

In terms of third party providers, I literally cannot speak on their behalf. It is important to note—and I think the Reserve Bank has talked about this—that one of the clear benefits of these proposed reforms is that you will have ATM services in locations that currently do not have them and, under the current system, are highly unlikely to have them.

Ms Wolthuizen—I will give an example to demonstrate a further reason why we are particularly concerned, going forward, about what the impact of these reforms might be on regional locations. This picks up on the point about outsourcing. In the UK there has been evidence of large banks withdrawing their ATM services in total from what would be rural locations in that country on the basis of the different costs they incur and the level of profitability they can enjoy from setting up and maintaining ATMs in those locations.

One of the reasons put forward by those institutions for their ability to withdraw from those areas is that third party or independent operators—the cashcard machines—will move in, but also acknowledging at the same time that that will lead to greater costs for consumers in those areas. We would be extremely concerned if that was a principle which was not only accepted for the purposes of these reforms now, where we do still have banks with ATMs in some regional and rural locations, but going forward into the future. If we look at unfortunate previous bank practice—that is, withdrawing from those locations on the basis of the cost of providing services—it is of little comfort to people in those areas that they might be attractive to a third party operator who can come in and fill the increasing gaps left by the withdrawal of ATM services on the basis that it is profitable for them to do so, leaving consumers in those areas with higher costs for accessing what we would consider to be essential banking services, perhaps the most essential banking service: gaining access to cash.

Mr Bell—I think Catherine raises a very good point. In the United Kingdom it is clear that there are some very perverse outcomes emerging in their ATM network because regulators are effectively banning banks from charging foreign customers to use ATMs. As a result, we have been told by several sources there that banks are selling their ATM networks to unbranded providers, which is the point that Catherine raises.

It is a classic example of how some sort of artificial cap on prices can deliver perverse outcomes. In the UK banking system, unlike the Australian banking system, what happens is that, if you artificially put a cap on prices, those prices get washed through the banking system and pop up elsewhere. I would endorse part of Catherine’s comments. I think that there have been some very perverse outcomes from the UK system and it is one of the arguments not to impose any form of fee cap on prices.

Mr GRIFFIN—So we should have a perverse reputation based on outcome instead.

Mr Bell—I am not sure what that means.

Mr GRIFFIN—You were arguing before that, on the basis of reputation et cetera, there will not be differentials. That is pretty clearly what you were expecting anyway. If you are saying that is the basis of how you are going to get an income and that is leading to a situation of a distortion, then we are going to get it anyway.

Mr Bell—No, I am not just arguing on the basis of reputation; that is one of the contributing factors. I made three other points as well. I guess the underlying point is competition. We have heard the Reserve Bank talk about how this new regime would introduce additional competition. Additional competition does have the effect of putting downward pressure typically on prices. That is economic theory.

Mr GRIFFIN—In general terms, I agree.

Mr Bell—Yes.

Mr GRIFFIN—I am not talking about the general situation.

Ms Wolthuizen—To clarify the point I made, it is more the point that where banks perceive that there are additional costs of operating in certain locations that make it less profitable for them to maintain or expand services in those locations, evidence in Australia, in the case of bank branches, and in the UK in the case of ATM services, is that they withdraw. It is of little comfort to those people left in these areas that someone might come in and fill the gap but on the basis of far higher costs.

Mr Toms—It seems a somewhat perverse argument, though—and I heard something similar from Chris when he made his introductory comments—to say that an institution has the ability to turn off their ATM now, yet if they were allowed to charge more, they would turn it off. That is what I am hearing. Surely they would turn it off if they could not charge more? If they could charge more, they would tend to leave it on. I heard Chris arguing earlier that fees will go up but the quality of ATMs will go down. To me, there is no logic to that.

Mr Griffin raised this question of the third party suppliers. I think for the first time that came out; it was something that was on my mind. Unfortunately, we do not have the third party suppliers represented here, so we are in a bit of a hole to have them defend themselves; we have the position of doing that. From the institutions' viewpoint—

CHAIRMAN—Mr Toms, they were invited.

Mr Toms—there are two reasons for financial institutions offering ATMs: one is for their own customers and to provide the service. As to why they got the ATMs in—and yes, branches represent a different level of cost again—they want to provide a service both to their existing customer network and to others. Third party providers do it for a different reason. I also heard the word 'convenience' store. Convenience seems to me to have a pretty important bearing on this. Third party providers are providing them to areas where there could be a need. I do not think we need to think that if an institution is keeping an ATM open now, it is going to close it because it can charge more. That seems contra-logic to me.

Mr GRIFFIN—Chris may want to clarify a response; I do not know.

Mr Connolly—The point is somewhat different. I was talking about the economics of it, if you recall. A lot of ATMs are justifiable to banks and people can argue for their maintenance, up the chain within banks, on the basis that it is cheaper than providing staff and services and it maintains a point of presence in rural and regional areas.

What the RBA reforms are doing is sending a message that every ATM must be viable. We have heard today from the RBA about whether ATMs are viable below a certain amount of transactions and passing traffic et cetera. We do not want there to be a situation where every ATM in Australia has to be rated on viability—does it have enough passing trade et cetera to make it profitable—because we think that will reduce the number of ATMs or will lead to the price being substantially higher.

If the independents are going to make their business cases work, and there are already 30 per cent more ATMs and obviously they would like to grow, then they are going to charge much higher prices. To say that rural and regional consumers will not be worse off as a result of these reforms, because supposedly we will get more ATMs in exchange for paying high prices, we do not believe that assumption. I think the risk is that all ATM operators outside the big cities will not be under any competitive pressure or, now, any regulatory settings which restrict them from charging whatever they like, or from now closing down. To me, these reforms are a green light to banks to say, ‘We’re out of here because there is an ATM in the service station down the road or the convenience store.’ The service station and convenience store are not open 24 hours a day, seven days a week, and that is the distinction between what people in the city will be offered and what people in the bush will get.

Mr Toms—I do not want this to be a debate because I respect Chris’s debating abilities too much. From our institutions’ viewpoint, I do not think viability is measured in quite such strict cost based terms. There are many other reasons for having an ATM network and one of those is for one’s own customers and trying to provide a broader service. I think viability is a much more complex thing than just simply measuring a cost structure.

Mrs Brown—I am having some trouble. Dr Veale and Mr Bell have both talked about costs not really escalating all that much and, with the technology of the last 10 years, ATMs not needing to have that volume of traffic. If that is the case, I think here, while we have been talking about regional, rural and remote Australia, we have only really been talking about regional. If that were the case, why aren’t there ATMs in huge numbers of our rural towns, let alone our remote towns? Our rural towns do not have any ATMs. I am referring to towns with populations of 1,500 in areas that draw in up to 3,000 farmers. My town, Molong, has just got its second ATM. If they are so profitable, help the reputations and people are in there to give their customers a go, why aren’t there ATMs out there now when the costs are regulated down? My question is either to the Reserve Bank or the bankers.

Mr Bell—It is a tough one to answer because there are a lot of ATMs out there. I think there are some 21,000 ATMs in Australia. The roll-out has been quite phenomenal. A lot of country towns do have ATMs and, under these proposed reforms, there will be even more ATMs for country users to use. This is one of the great benefits of these reforms. If these reforms do not go through, some of your constituents, if you like, will not have the benefit of using ATMs.

Mr GRIFFIN—In layperson’s terms, just walk me through that. Why is that the case?

Mr Bell—In layperson’s terms, you are going to encourage ATM providers to provide ATMs to locations where it may not have been cost-effective to locate them.

Mr GRIFFIN—Because they will be able to charge more.

Mr Bell—They will be able to provide ATMs in locations where it is uncommercial to provide an ATM.

Mr GRIFFIN—It is uncommercial under the current charging arrangements.

Mr Bell—Correct, because of the series of bilateral arrangements.

Mr GRIFFIN—So the end result being charging more, charging less or charging the same?

Mr Bell—It is impossible for me to answer that question. The theory is that if you unbundle the system, deregulate it, you are going to encourage ATM deployers to move into locations where they have not been. Again, their pricing will have to be properly pegged because if it is at the wrong level, people simply will not use those ATMs.

Mr GRIFFIN—Do you get a sense that your major banks are planning, on the basis of these reforms, roll-outs of networks, or are they seeing this as being something that would be up to third party providers to fill the gaps?

Mr Bell—I simply cannot answer that question.

Mr GRIFFIN—Have you asked them that question?

Mr Bell—I have not asked them that question.

Mr GRIFFIN—Could you get back to us with any response. Obviously it is a ‘if this goes ahead’ situation, but they plan ahead. They have an idea of what they are doing in terms of forward planning. It would be interesting to ask that question if you could; I would appreciate an answer.

Mr Bell—I will ask the question.

Mr GRIFFIN—I expect I know what the answer will be and I will look forward to getting it.

Mr HUNT—I am trying to put it all together with a series of questions across three fronts, which involve some of the suppliers, the regulators and the consumer advocates; remembering also that this is an inquiry relating to rural, regional and remote consumers. The three areas that I want to ask about are the current system and the outcome that we want to achieve, the proposed changes and then the consequences. In terms of the current system, this first question is to Dr Veale. As I understand it, the direct charge proposal effectively aims to achieve three reforms or outcomes to the current system: firstly, to introduce transparency so that the consumers can see the pricing; secondly, in theory, to increase access for people in certain rural and remote areas; and, thirdly, in theory, to place competitive pressures on prices. So you have the transparency benefit, which is, I think, undoubted, and then you have two areas of debate—access and prices. Are those the three outcomes you are trying to achieve? Is that a fair assessment of what you are trying to achieve?

Dr Veale—I think that is a good summary but I would turn it around a little and say that the conclusion of our joint study with the ACCC was that competition simply was not working. In that respect, can I observe that there is no regulation of any of these matters at the moment. It was suggested a little while ago, I think, that there was; there is not. There is no regulation of the interchange fee or foreign fee. Nobody has the power, to the best of my knowledge, to regulate them—at least the foreign fees. In fact, there is no reason why banks or ATM operators cannot impose a surcharge now, and some do. I make that point.

The transparency story is very much a part of competition. One of the problems with the current arrangements is that people do not know what the foreign fees are. I think if you did a little survey and asked people around this room, a lot of them would not know what the foreign fees are or how much they have paid in the last month. That makes it pretty hard for competition to work. If you have a direct fee and people see the fee, they may wince a bit but they will at least know about it and they will react, and you will get some movement, you will get some competitive forces flowing, and that is very important.

One of the effects, of course, is the access point that you mentioned. If you do liberalise these arrangements and allow people to put ATMs in places that are not currently viable, even if they have to charge a little more—we do not resile from that—there will be some points at which an ATM costs more than it does now but it will be in a place where it almost certainly was not located before. That is an important point. Our guess, though, is that, on average, you are going to get competitive pressures pushing prices down because there is that big gap between the 50c cost of providing these services and the $1.35 that people are paying at the moment.

Mr HUNT—That margin is shared between the foreign ATM and the host.

Dr Veale—That is right.

Ms Bullock—Can I add a perspective to that. What you can say is that where there are not currently ATMs, it costs more than $1 per transaction to put one there. The other thing you can say is that there are an awful lot of places where it costs a lot less than $1, and the result is not that consumers are seeing lower prices, it is just going into the pockets of the ATM provider. They are getting $1; it is costing them 50c. If there were a competitive pressure there, you would expect that to get passed on; it does not.

Mr HUNT—The second question, which flows from the current system, is about the proposed changes. At present there is nothing to stop—there is no regulatory regime that I am missing—the banks from proposing and implementing differential charges.

Dr Veale—Correct.

Mr HUNT—So the real proposal here has three elements, if I am correct. One is that there be an imposition on the banks that the direct charges be disclosed so that the public can see them and make their choices. The trade-off is that the banks would then agree to break their current series of bilateral agreements –

Senator MURRAY—I think you can call it a cartel.

Mr HUNT—My next sentence was to say some might call it a cartel arrangement but let us call them a series of bilateral arrangements. That would unfix that system that would allow two subsequent effects. With respect to disclosure, the banks unfix their system, which means that the National can charge a different global rate from the ANZ or Westpac, and they also implement the capacity for differential charging, which means that the National can charge a city rate that is different from a regional, rural or remote rate. That is the concern that the consumer side has.

I think we have all agreed that the disclosure element is a good one, it has positive effects. Arguably, the unfixing element where they break their agreement and the National, Westpac, ANZ and Commonwealth all charge different rates is positive. It then comes down to that last element of the differential rates. If you have a differential rate between the city and country—and, by definition, if you want to improve access in the country, you have to have a differential rate because otherwise there is no incentive for the banks to go in there—if you impose that differential—

Senator MURRAY—It is a terrible assumption to make.

Mr GRIFFIN—Ms Bullock was saying—I will paraphrase the quote but if I am wrong, let me know—that one thing you can be sure of now is that if there is no ATM there it is because they cannot do it for $1.

Mr HUNT—So they have to increase their prices to put it in.

Mr GRIFFIN—Therefore, if at the end of these changes there is an expansion of the provision of services, then you are going to be providing it in areas where the cost of the provision of that ATM is more than that.

Mr HUNT—Is greater than the current.

Mr GRIFFIN—Therefore, you lead to the question of the differential, which is at odds with what the ABA is saying they expect will be the outcome in the context of their members.

Senator MURRAY—That is where a machine is not being supplied.

Mr HUNT—Correct.

Senator MURRAY—Where a machine is being supplied—and this the reason I think your assumption needs testing—the implicit assumption I thought I heard you make was that it is being competitively priced. I think that does not automatically follow. It could be in a regional and remote area where it is overpriced now.

Mr HUNT—Exactly. There are two effects that we want to achieve: transparency and the increased access but without allowing for some form of price gouging in vulnerable areas. So you want to increase access, which is a laudable goal. This side of the table is also concerned that, in increasing access—and I am sure everyone agrees that is a good thing—you protect existing customers or towns with existing but narrow ATM holdings from being gouged. Is it possible? This is a question for the consumer end: can you see a system where you can do that? Can you achieve the outcome of increasing access but also protect in some way the existing ATM users—in small towns where there is only one or maybe two?

Ms Wolthuizen—I suppose it is an early stage of development, but there has been an acceptance, it seems, from both the regulators and the industry that deregulation of direct charging is the sole way by which those particular outcomes can be achieved. So much of the discussion this evening has been centred on the difficulties we perceive regarding the degree to which that model is going to achieve these outcomes. I think the great undiscussed element is what the alternatives are. Looking at how ATMs operate, it has always struck me as strange that treating ATMs as a network has been bypassed in favour of treating ATMs as single units and you price them individually.

Senator MURRAY—As profit centres.

Ms Wolthuizen—That is right. Why wouldn't you perhaps look at the current arrangements and say there are problems with having bilaterally negotiated contracts—it leads to inflexibility and barriers to new entrants, and it has led to prices being inflexible as well. Why not look at some sort of standard setting arrangement, perhaps similar to that adopted by the Reserve Bank in relation to credit cards, to say it is a network, we will centrally have somebody assessing the costs associated with ATM provision, set a standard for cost recovery and set that as a centrally located switch? For new entrants to come in, they go through that particular central switch, they adhere to that particular standard and the whole network is treated as such rather than individually priced—

Senator MURRAY—How can you do that effectively if the standing and servicing costs differ according to the location?

Ms Wolthuizen—By setting a standard for network access as a whole, you may be agreeing that there is some capacity for allowing for cross-subsidisation to enable universal access.

Senator MURRAY—That is the point, isn't it?

Ms Wolthuizen—Yes.

Senator MURRAY—If you are going to go down that route, you have to accept the principle of cross-subsidisation.

Ms Wolthuizen—But it seems that there are very real concerns that underpin a lot of the criticisms that have been raised at this end of the table about the importance of retaining equity of access and access being more than just having a physical ATM located in a particular community, or having more than one ATM located in a particular geographic region. I think there is a great confusion of the notions of convenience versus reliance. So much of the discussion around the pricing of ATMs and the user pays principle and its application to access to ATMs seems centred on this notion that it is convenient for people to have access to an ATM when we know in many locations it is a reliance issue. That brings in a whole range of other consumer protection concerns that simply are not factored into a direct pricing model.

Senator MURRAY—I hear you saying—if I can put it in blunt terms—that it is a consumer right to have access to a fundamental and essential service, which is the availability and provision of cash. Because that is a consumer right, either the banks or other customers must pay the costs of providing that consumer right where the market does not otherwise allow that subsidy to be made.

Ms Wolthuizen—I will also raise a different concern that arises out of the direct charging model, and this arises out of the notion that you promote competition by promoting parallel networks—this idea that, in order to have price competition in particularly built-up areas or in certain locations, you are encouraging banks to set up multiple ATMs next to each other. I think that introduces costs for end users. Instead of having multi-access points as part of an overall network, which I think you would have to consider would be more efficient, you are arguing for banks and their customers to incur the costs of setting up increased numbers of ATMs so that they can be in red-hot competition with each other. This building is a good example. I think there are two Westpac ATMs located in Parliament House. They provide a service to all of those who work in and visit Parliament House at what most people consider to be a reasonable price because presumably they get sufficient traffic to enable people to continue—

Senator MURRAY—I have no idea what the price is.

Ms Wolthuizen—It is probably about $1.50 for most non-Westpac customers to access that ATM. Is it an efficient model to say, 'Well, actually, it would be better to have every single bank who might have a customer in this building set up a row of ATMs outside Aussie's, all competing with each other at perhaps between 5c and 10c difference in the cost of a withdrawal'?

Ms Chandler—Many years ago, when ATMs were first introduced—I am old enough to remember that—I worked in a bank. I was head of marketing at the ANZ Bank at the time. ATMs were introduced and were very much a competitive product of each bank. But the banks opened up the ATM network and introduced fees for other customers to use them precisely because it avoided them each putting in ATMs and competing against each other in various locations—that is, it kept their costs down so they could open it up to other providers. It seems to me that we are going full circle here.

Mr HUNT—I am looking at Margaret Brown and thinking, at the end of the day, it is her community, her people, that we are trying to address. In the small towns or hamlets that do not have anything at present, how do we get something in? That is the first question.

Mrs Brown—Most of those small towns had a bank. Even a town 25 kilometres from me with only 260 people—that is what the sign says at one end of the town but the sign at the other end says the population is 293; I am not quite sure where the other 30-odd have gone—had two banks, one full time and one part time, and gradually they were cut out and are now non-existent. Both of them moved to the post office and then the post office closed. Now, one of them is in the general store, so you are only able to access that bank while that general store is open. It is not open after 12 o'clock on Saturday until Monday morning or after 5.30 at night until eight o'clock the next morning, and there is no ATM there.

The other bank did not even bother doing that. It kept its branch open at Molong, 25 kilometres away, until last year when it simply went from three days a week to zilch. It has not bothered putting in an ATM; it is the Commonwealth that has kept a branch going at Molong and that has an ATM. When branches closed, we were promised alternative services. Quite frankly, that has not always happened. I would see the ATM in a rural community as a fair alternative service in that you can access cash and, for the bigger ones, you can put in cheques. If you live in, say, Cumnock, you have to travel to Orange—that is 62 kilometres away—if you want to access real deposits for some of the big banks. When you do it, they are only open in business hours.

I do not see ATMs as the whole answer to the withdrawal of services by banks from our communities, but certainly the banks promised us alternative services. I think they did offer them at the time as being as good. While we were cynical about it, we never thought that they would not even be there; but they are not. I cannot see, honestly, any of the big banks putting ATMs into a place like Cumnock with 260 people. I do not care how deregulated you make the system. I am willing to be proven wrong, but I will bet I am not. The next town along going towards Dubbo will not get them either.

We have had a lot of theory today but when it comes down to the practice of living in rural areas, the rhetoric is not being matched by the practice. I do not care if there are 21,000 ATMs in Australia, how many are in a suburb of Sydney or Melbourne, how many are in the average country town of 500 to 600 people?

Mr GRIFFIN—Luke, with respect to your members, and I guess also those of Mr Toms, given that your members more than most would be dealing with foreign ATMs, given the size of the institutions in the first place, therefore for those members there may well be even more concerns. Luke, you mentioned that, under negotiation internally to the process of the working group, you felt that the concerns that you have can be dealt with. Could you expand on that in terms of what those concerns are?

Mr Lawler—I restate that we do generally support the reform proposed by the Reserve Bank and the ACCC, but we do see a potential threat to smaller institutions simply arising from the fact that, if a large institution has a very large network of ATMs, it has a potential competitive advantage which it can use, if it chooses, to try to attract customers from smaller institutions simply by saying, 'You will not be direct charged if you are a customer of ours.' A bit of that has occurred in the US, which again is not the same model that we are talking about here. They still have interchange fees in the US plus direct charges, so it is not what we are talking about here. Nevertheless, some of the larger institutions in the US have taken that approach of using direct charging as a competitive tool to try to win customers from smaller institutions.

Mr GRIFFIN—On that point, though, conceptually it is still the same. The big change here is the potential for differential charging and the impact that that may have in terms of roll-outs of networks and therefore access. That is the issue that concerns this committee, I guess, in the context of the question of regional services. Although I accept that the American system is different, I think at the end of the day the basic key point is there around the question of why there will be differential approaches taken or which could be taken.

Mr Lawler—The big change is the difference in the case of foreign ATM transactions, which are a large proportion of ATM transactions but by no means the majority of ATM transactions. Most ATM transactions involve a cardholder using their own institution's machine. It is important to bear that point in mind. The group that is not represented here—the independent deployers—have no interest in the card issuing side of the business at all; they simply want to attract transactions from the customers of institutions which issue cards. In a sense, it is about breaking off ATM transactions into a discrete business from the wider banking relationship. Our focus is on that wider banking relationship and making sure that our members are not disadvantaged by the move to free up the pricing and getting that extra transparency into pricing, and possibly increasing—if economic laws make any sense at all—the number of ATMs in locations where they are not located now.

Our concern is simply to address that potential problem of customers of small institutions simply being confronted with the fact that larger institutions, having much larger fleets, are able to offer free—or, if not free, direct charge free—transactions within a free transactions limit, similar to the charging systems you have in place now. We think we can accommodate within the reform a way of maintaining a national credit union ATM network whereby members of credit unions will still be able to access ATMs, wherever they are, without being direct charged. That is what we see as critical to making sure that this reform does not disadvantage credit union members.

Mr Toms—Only fairly recently, we have come to building society customers, and probably not too long before that, most customers of institutions, having general access to this thing called ‘every ATM’. Initially the building societies, which was a broader industry in the good old days, developed the Cashcard network. That was our answer to try to get broad-spread access to an ATM network.

Looking at history, do we need to have access to every ATM? In those regional areas where there is only one ATM, probably the answer is yes, it would be desirable. Generally speaking, that is not typical of the community’s access to ATM networks. Do we need access to every ATM? No, not necessarily. That gives us, I think, a lead as to where we might go. Probably Luke is alluding to a similar sort of thing with the Redicard network as being a national network. The bucket transaction would be a good deal for us. The building societies have tended to be at the other end of the interchange fees spectrum, so we can see a 50c cost versus pressure by competition for an interchange fee that is lower than we get as being quite plausible. Let the competition come on; let us try to give our customers access to a lower cost interchange or disclosed fee. So we think competition will benefit us from that viewpoint. We would like to take our chances on that one.

The last point is that we may well end up going back—and this is where competition and the uncertainties for the future may yield some interesting bedfellows—to some sort of favoured ATM network, so you may negotiate a better deal for your customers for a national network with one of the majors. The last one is not something that we have really considered and do not think we need to consider yet, but who knows what will emerge out of this uncertain world? We think that, for our institutions, there are a lot of opportunities there. We are mindful of some risks but we want to take our chances in that regard.

Mr Anderson—I would like to add one or two comments mind. In respect of the charges, one of the big differences between the current system and the direct charge model is that the customer and consumer at the ATM will in fact see the price at the ATM before they do the transaction. I think we need to acknowledge that and realise that the consumer can then cancel the transaction and not continue with it. Realistically, that is something very different from the current model, where the transaction goes ahead and you really do not know the fee that you are paying for it. The important aspect to remember in going forward is that, even if the fee does increase in certain rural areas, the consumer gets the choice, they know what the fee is and can decline the transaction.

Mr Connolly—I am just not sure what their alternatives will be once they see the fee. If they see the fee and it is $5, are you suggesting that they go without cash?

Mr Anderson—I am suggesting they will learn to make other arrangements. If the fee is too high, the ATM will not be used and, in fact, it will force either the ATM to close down or the price to be reduced to one that is acceptable to the market. Or they could go to an alternative. There is EFTPOS, giroPost, Australia Post; there are alternatives.

Mr GRIFFIN—The question will be the availability of alternatives, on the one hand.

Mr Anderson—Correct.

Mr GRIFFIN—The one problem with that is that if you are dealing with an ATM that, by definition, is low use, and that is one of the reasons why it has high fees in order to make it viable, there may well be, in the context of that, a built-in allowance for the fact that there will be a few refusals on the way through and 'I'll still make my profit.' It is an economic argument.

Mr Anderson—The profits will not be there on a refusal transaction.

Mr GRIFFIN—There will not be on that refusal transaction, but if I have 10 refusals but still do 50 and I am making $5 a pop versus a much lower figure in picking up those 10, I am making a bigger profit. I am not worried about throughput in those circumstances; I am worried about the end result.

Ms Chandler—I think it is worth bearing in mind that it is only at an ATM that you can get your account balance; you cannot do that through EFTPOS. You can do it at Australia Post.

Mr Connolly—But that costs as well. We are talking about rural customers and their telephone costs plus your bank fees. It is not free to get an account balance and yet that is what individual customers who are on low incomes and are disadvantaged have to do in order to manage their finances.

Mrs Brown—It is only within business hours.

Mr Bell—That is not true. You can get your account balance—

Mrs Brown—No, I mean an alternative.

Mr Bell—24 hours a day, seven days a week.

Mrs Brown—If you do not wish to use your ATM because the cost is going to be $5, people have said, 'Go to an alternative source or learn to manage.' There are not alternative sources outside business hours in a lot of our rural towns. There is no EFTPOS outside shops and we do not have lots of shops. There is no post office; they are within a shop and the shop closes after business hours. There are not alternatives; that is what I am saying.

Mr Bell—That is one of the advantages of these proposed reforms: people are provided with an alternative; they will have access to an ATM where they would not have had one before. There are alternatives for getting your account balance; you can use the telephone.

Mr HUNT—Let me throw an idea on the table and you can rip it apart. You do the following things: firstly, you introduce direct charging, allowing greater transparency and across the country as a whole it probably is likely to have a competitive effect. Secondly, you allow differential charging—and I do not want Dr Veale or David Bell to faint—only for new ATMs. So there is direct charging—transparency. Secondly, the ANZ, Westpac, National, can all compete because they can do that for systems as a whole. Then, to improve the access but without threatening those people who are in rural and regional areas, you allow differential charging only on the new machines. So there is an incentive for the banks to put machines into areas which they would not otherwise do but that does not impose a risk for people in existing rural areas.

Mr Connolly—A bank which closed a branch and replaced it with an ATM would therefore be opening a new ATM, and you are suggesting that they are allowed to differential price. As I have argued from the beginning, most banks today which closed a branch would replace it with an ATM for reasons of cost reduction et cetera. That ATM would be saving the bank an absolute fortune and, under your suggestion, you are saying they can now charge $5, $6 or $7 a transaction.

Mr HUNT—I am worried about Margaret Brown’s town, which does not have anything, and getting a new ATM into her town.

Mrs Brown—But you also have to look at the scenario as propounded by Chris, haven’t you?

Mr Connolly—Would you add another test of accepting conditions where that bank has just closed the branch?

Ms Bullock—I think it would have a perverse effect in that banks that are currently operating ATMs would not be encouraged to lower the fees if in fact the fees were higher than they should be at the moment. I think you would end up with not as many of the benefits and just as many of the costs.

Mr GRIFFIN—What about ceilings?

Ms Bullock—If you put in ceilings, I think what you will end up with is the same situation that you have. If you put a ceiling on the direct charge, you are not going to get the ATMs into those areas where it costs more than that ceiling. You might be able to put on a ceiling and you might make some inroads, but you are not going to get them necessarily into the towns where it is going to cost a bit more. That is just the way it would work.

Mr GRIFFIN—Given that this end of the table is fairly comfortable with what is being proposed, although there are some issues to be worked through, what would be your alternatives?

Mr Connolly—I state again: it really is going to take a lot of work to come up with an alternative that delivers. We have been pretty happy with aspects of the credit card reforms because we are seeing fees, which have not reduced for 20 years, despite the costs of data processing, telecommunications et cetera coming down, suddenly coming down because an independent consultant has been commissioned to set those fees closer to real costs. That is an option that is attractive to us. It would take some significant reforms—even more significant than the ones proposed—in order to get to that point. We do not want to abandon that idea. In the current process, that is much more attractive to us—an independent setting of fees closer to cost to overcome this differential between the 50c and the $1.35—than hoping that competition will somehow deliver on the 50c and $1.35 because of the detrimental impact on rural consumers caused by that.

Some other approaches that we have tried have been to get price monitoring guarantees on an overall reduction in prices and guarantees on no differential pricing introduced into the current proposal, because it is an application to the ACCC. So in fact the banks and independents are allowed to use the word ‘guarantee’ in an application to the ACCC because they would be seeking a waiver of the Trade Practices Act restrictions on collusive pricing et cetera, if they could prove it was in the public benefit. So it is not illegal for us to talk about a guarantee in this room or other rooms in the lead-up to an application for ACCC authorisation.

Those are two potential alternatives. With respect to increased access in remote and rural areas which do not currently have ATMs, it is not out of the question to consider treating ATMs as a network and going for cross-subsidies, looking at community obligations and a whole range of alternatives which this committee and its predecessors have considered. In the same way in which pressure has, over time, been brought to bear on other aspects of banking in rural areas, ATMs are the next battleground.

It is very unusual for the consumer groups not to agree with and support the Reserve Bank in its push for payment systems reforms; we have supported all of those on credit cards, direct debits, EFTPOS, Visa debit and Bpay, if we ever get the chance. It is really only ATMs that we think are different. That is because we do not see them just as a payment system; we see them as having a role in providing something of a branch replacement and adequate services. That is why we are at the different end of the table for the first time in the couple of years that we have been going through this process.

CHAIRMAN—Mr Gamble, would you like to make a comment? You said earlier that you were on the credit card side rather than the ATM involvement.

Mr Gamble—I have no comment to make on the ATM side. I am in Canberra to pursue a different matter—that is, greater transparency and honesty in the way credit cards are marketed to Australian consumers. At your invitation, Mr Chairman, I attended the committee meeting to outline our views on that matter and, if appropriate, I would be happy to summarise our position on that for the committee to explore now or at some other time, but I think it is a different matter.

Mr GRIFFIN—It is pretty much a different issue in the context of where we are today, I think. I agree that it is a very important issue.

CHAIRMAN—Any final comments?

Mr Bell—I would like to make some very brief final comments. Clearly, these are reforms that have been initiated by the Reserve Bank. We support them; we think they are going to generate the right outcomes for people in country Australia. There are going to be more ATMs and pricing transparency. Price gouging will not occur because over-pricing will be competed away; someone else will move in. I think the beneficiaries will be people in rural Australia—more ATMs and a good result.

CHAIRMAN—There being no further comments, I thank all of you for your participation. It has been a very long session but very worth while in terms of getting an exchange of views and responding to the issues that the members of the committee wanted to raise. Thank you for that, and it certainly will be valuable in terms of our final deliberations and contribution to our report.

Committee adjourned at 6.24 p.m.