# Bank Fees: Up, Up and Away

## Labor Members Report
## Inquiry into Fees on Electronic and Telephone Banking
## Joint Parliamentary Committee on Corporations and Securities

## February 2001

### Executive Summary

Banks earned fee income of $1.8 billion from households in 1999. Significantly the revenue earned from deposits has increased by 44% and the income earned from transactions has increased by 160% since 1997.

Labor members of the JPC believe that the charging regimes for bank fees are not efficient and competitive and are based on extracting an obscene level of profit. The increase in bank fees has been excessive and is not related to movements in inflation.

The Commonwealth Bank presented evidence to the committee that the revenue that the banking industry earned from fees is only 1/3 of the costs they incur.

The ramifications of this are clear. If banks charged the full cost of providing services bank fees would increase by up to three times their current levels. On current fee levels this would result in an over the counter transaction in a bank branch costing $9 while an ATM and eftpos transaction would cost $1.80.

This is socially unacceptable.

There needs to be a recognition from banks and policy makers that banking is an essential service. The level and incidence of banks fees has a social implication which cannot be ignored.

Labor members of the committee are of the view that there is a point at which the banks must be told that enough is enough.

**It is now time to draw a line in the sand on bank fees.**

Bank fee increases have been justified on the basis that consumers should pay for the services that they consume. However Labor members of the JPC are concerned that it is low income earners who are paying bank fees because they are not able to access fee exemptions based on levels of lending or deposits and do not use subsidised services such as internet banking.

Low cost bank accounts that the banks were said to provide are not widely available and could not in all cases be regarded as low cost accounts.

Labor members of the JPC found that cross subsidies still exist in the banking industry but banks have been selective in choosing which cross subsidies they seek to remove. While over the counter transaction fees have increased by up to 400% in the last five years, banks continue to provide fee exemptions for housing loans and large deposits that are not related to the costs of operating a retail transaction account.

Banks also charge some services as loss leaders in order to encourage customer migration to new channels. Labor members of the JPC are concerned that while the practice of 'loss leading' may lead to economies of scale in one distribution channel it may also lead to diseconomies of scale in banks' alternate distribution channels.

Direct charging of ATM fees allows ATM owners to charge a different fee for each individual ATMs based on their different costs. Under this fee regime, ATMs with high volumes of transactions would normally have lower fees than ATMs with low volumes of transactions.

The ACCC and Reserve Bank have specifically recognised that a direct charging fee regime for ATMs would allow higher fees to be charged in remote areas.

Labor members of the JPC are concerned that introducing a direct charging fee regime for ATMs without a commitment from the banks on the level of bank fees would lead to increases in ATM fees in rural and regional areas where the costs of providing ATM services are greater.

**Labor members of the JPC do not support the Chairman's recommendation to introduce a fee regime for ATMs based upon direct charging without an agreement on the level of bank fees.**

In the UK, banks have recently agreed to drop all fees for ATMs. Labor members of the JPC consider that if it is good enough for UK banks to allow their customers to access cash for free, shouldn't it be good enough for Australian consumers?

Labor members of the JPC consider that it is technically possible to introduce a real time disclosure regime for ATMs within a period of 12-24 months.

While there are costs involved in establishing a better fee disclosure regime for ATMs, these should be weighed against the benefits of a more informed market. It would be unthinkable that a bank could provide its customers with the ability to purchase a movie ticket through an ATM before it provided information on its own fees – and yet this is a possibility. Banks invest in technology when they see they can make a buck but they should also be prepared to invest in technology to benefit their customers.

## Recommendations

**1. Labor members of the JPC recommend that the Government immediately direct the ACCC to formally monitor bank fees and charges.**

**2. Labor members of the JPC recommend that banks accept a moratorium on increasing bank fees for a period of twelve months.**

**3. Labor members of the JPC recommend that banks offer fee free banking to pensioners and social security recipients.**

**4. Labor members of the JPC recommend that the Federal Government immediately direct the ACCC to hold an inquiry into why UK banks have been able to abolish ATM fees while Australian banks say they cannot.**

**5. Labor members of the JPC do not support the Chairman's recommendation to introduce a fee regime for ATMs based upon direct charging without an agreement on the level of bank fees.**

## Disclosure of Fees

**1. Labor members of the JPC recommend that:**

- **Banks introduce a real time fee disclosure regime for ATMs within a period of 12-24 months.**
- **Banks provide to a customer information on the cost of a transaction before the transaction is made so that a consumer has an opportunity to cancel the transaction.**
- **Banks provide to customers a break down of fees charged on monthly statements, including a comparison of fees over previous months so that consumers can compare their transaction activity.**

**2. Labor members of the JPC recommend that ASIC continue its role in facilitating the introduction of a real time fee disclosure regime through the ASIC Transaction Fee Disclosure Working Group.**

## Terms of Reference

The Joint Parliamentary Committee on Corporations and Securities has conducted an inquiry into Fees on Electronic and Telephone Banking.

The Committee held one public inquiry in Adelaide on Wednesday 23 August 2000.

The Committee's terms of reference stated that the Committee would:

*Inquire into the status of fees on electronic fund transactions and telephone banking. In particular:*

*1) the reasons for and impact of fee increases on:*

- *ATM withdrawal (own machine)*
- *ATM withdrawal (foreign machine)*
- *Telephone transactions*
- *Internet transactions*

*(2) the availability and transparency of fee information for consumers who undertake electronic funds transactions or telephone banking;*

*(3) the feasibility of implementing a fee disclosure regime on electronic fund transactions and telephone banking; and*

*(4) the role of ASIC in ensuring bank, non-bank financial institutions and non-financial institution suppliers and operators of those facilities, provide appropriate fee information on electronic and telephone transaction banking.*

## Banking as an Essential Service

In determining the reason for and impact of bank fee increases it is important to understand the role of banking in Australian society.

Banking is fundamental to economic activity.

Every transaction – even black market ones – at some stage involve banks.

Banks provide the cash, credit and electronic transactions upon which all economic activity is based.

One example of how banking is an essential service is in relation to accessing cash.

The Chairman's Report stated that the emergence of ATMs operated by non-financial institutions illustrate both the demand for ATM services and the willingness of consumers to pay for them.

This notion of 'demand' for ATM services is inaccurate.

Consumers demand cash, not because it is a normal consumer good like buying shoes or groceries, but because it is essential to operating in society.

Because banking is so essential to economic activity it is important that all Australians have access to affordable banking services so that they can participate on an equal footing in all forms of economic activity.

It is because banking is an essential service that banks have a social obligation to provide accessible and affordable banking services for all Australians.

Access to affordable banking services is especially important for low-income earners who are more at risk of becoming socially excluded. In the United States 12 million households do not have banks accounts. This deprives these families of the basic ability to participate in economic activity.

Labor Senators were concerned that when questioned by the Committee on whether banks had social obligations, Mr Jeff Oughton, Acting Chief Executive of the Australian Bankers Association replied, 'no.'

This comment caused a storm of protest from consumer and community groups.

Mr Oughton subsequently clarified his position stating that banks had delivered on their community obligations by being good corporate citizens and by being involved in a wide range of community based activities.

Labor members of the JPC believe that banks do have social obligations and that one of the key social obligations is to ensure that all Australians are able to access affordable banking.

## Bank Fees: The Facts

According to the Reserve Bank's Report *Notes on Bank Fees in Australia* produced in May 2000, banks earned fee income of $1.8 billion from households in 1999. Of this, $260 million was earned from deposits and $430 million was earned from transactions. Significantly the revenue earned from deposits had increased by 44% and the revenue earned from transactions had increased by 160% since 1997.

In the last five years bank fees have increased significantly. In June 1995 when the Prices Surveillance Authority (the predecessor to the ACCC) investigated the incidence of bank fees on retail transaction accounts at the instigation of a Labor Government, two of the major banks did not charge fees for ATM and EFTPOS transactions.

**Electronic Bank Fees on Retail Transaction Accounts.**

| **Bank** | **1995 (1)** | **2001 (2)** | **1996** | **2001** | **1995** | **2001** |
|---|---|---|---|---|---|---|
| | **Own Bank ATM** | | **Foreign Bank ATM** | | **EFTPOS** | |
| **ANZ** | $0.50 | $0.65 | $0.50 | $1.50 | $0.50 | $0.40 |
| **CBA** | $0.25 | $0.60 | $0.25 | $1.25 | $0.25 | $0.40 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **NAB** | $0.00 | $0.60 | $0.00 | $1.50 | $0.00 | $0.60 |
| **Westpac** | $0.00 | $0.65 | $0.00 | $1.25 | $0.00 | $0.50 |

(1) Inquiry into Fees and Charges Imposed on Retail Accounts by Banks and Other Financial Institutions and by Retailers on EFTPOS Transactions, *Prices Surveillance Authority*, June 1995.
(2) infochoice.com.au

It should be noted that the increase in banks revenue from bank fees has been caused not just by increased fees, but by an increased volume of transactions. According to statistics from the Australian Payments Clearing Association, in 1995 a total of 29.1 million EFTPOS transactions were conducted each month. In 1999 the figure was 48.6 million.

## The Efficiency and Competitiveness of Bank Fees

One starting point for an examination into the efficiency and competitiveness of bank fees is the Inquiry into the Financial System – the so called Wallis Inquiry.

Wallis identified the importance of an efficient financial system to the economy and recommended that a Payments Systems Board be established to regulate the Payments System. Wallis also recommended that the ACCC conduct an investigation into interchange fees.

The ACCC, together with the newly created Payments System Board, recently completed this inquiry into interchange fees. The ACCC and RBA report, *Debit and Credit Card Schemes in Australia: A Study of Interchange Fees and Access* revealed inefficiency in Australia's payments system and that banks were in some cases earning fees that were double the cost of providing services.

The report examined a number of issues that were relevant to the Committee's inquiry.

In respect to ATM fees, the report stated that the average cost of an ATM withdrawal is $0.49 while the average foreign ATM fee is around $1.35.

According to the report, ATM interchange fees have changed little since they were introduced, despite the fact that ATMs themselves have become cheaper as have telecommunications costs. The costs of supplying ATMs with cash have also fallen as interest rates have fallen.

The ACCC and RBA conclude that if ATM interchange fees were initially based on costs, they have not shown any flexibility in responding to costs in recent years.

The ACCC and RBA were of the view that the substantial margin between ATM interchange fees and costs could be expected to attract new entrants into the provision of ATM services.

According to the ACCC and RBA, ATM interchange fees are based on bilateral price agreements. A major explanation for the fact that interchange fees have not fallen is that there are no clear incentives for financial institutions to negotiate lower fees. This is because bargaining power of participants negotiating ATM interchange agreements favour large financial institutions over smaller new entrants.

The ACCC and RBA's report concluded that banks earn substantially more revenue from ATM services supplied to customers of other financial institutions than they do for transaction fees on their own customers. The impact of this is not just to raise additional revenue for the banks but to restrict competition and make it hard for new entrants without large ATM networks to compete.

The Chairman's Report stated that *"there is substantial evidence to indicate that financial institutions have historically underpriced the cost of electronic banking transactions, but are now aligning charges more closely with the marginal cost of providing the service."*

While the evidence from the ACCC and RBA was that banks earned fee revenues on interchange fees that were double the cost of providing the service, banks themselves provided evidence to the JPC that their bank fees did not in fact cover costs.

The Commonwealth Bank's submission to the JPC stated:

***On an industry wide basis, the costs involved in providing these transaction services are still at least three times the level of fees collected. Reserve Bank research has shown that $460 million is recovered from Australian household sector by way of deposit and transaction fees, compared to total costs of the order of $1.5 billion.***

If banks did charge fees according to their costs on current fee levels this would result in an over the counter transaction in a bank branch costing $9, an ATM transaction would cost $1.80 and an eftpos transaction would cost $1.80.

This is socially unacceptable.

If banks earn revenues that are only one third of the cost of providing services, at what point do we say that fees have gone up enough?

Labor members of the JPC are of the view that it is now time to draw a line in the sand on bank fees. Labor members of the JPC recommend that banks accept a moratorium on increasing bank fees.

## Winners and Losers

The Australian Bankers Association stated in their submission to the inquiry that, depending on the provider up to 75% of customers do not pay bank fees.

The Chairman's Report accepted the ABA's evidence, stating:

*"The Committee accepts the evidence presented that up to 75% of customers pay no fees at all on personal accounts and that most banks provide substantial fee discounts and exemptions for people who are financially disadvantaged or disabled, and for pensioners and students."*

Labor members of the JPC do not accept this as fact.

Firstly let us be clear what the ABA **actually** said about bank fees. They stated, *"ABA analysis shows that, depending on the provider, 30-75% of customers do not pay fees and charges for services associated with transaction accounts."*

One way of reading this statement is to say that up to 75% of customers do not pay bank fees. Another way is to say that up to 70% of customers do pay fees.

The ABA's statement gives the impression that bank fees are a small issue relevant to a small number of Australians. With the Reserve Bank confirming that banks earn $1.8 billion in fee revenue from households it is clear that the level of bank fees is not a small issue.

The significance of bank fees as an item of consumer expenditure is evident from the fact that the ABS now add bank fees to the basket of goods and services used to calculate the CPI.

Chris Connolly, from the Financial Services Consumer Policy Centre stated to the Committee that, *"they (ABS) have decided that on their figures bank fees amount to a higher proportion of household spending that either heating or public transport….It is a reflection that the other costs to households, especially in telecommunications, postage and electricity, have either reduced or remained in contact with inflation rather than by increasing 50%, 23%, 400%."*

The Chairman's report notes that most banks provide substantial fee discounts and exemptions for people who are financially disadvantaged or disabled, and for pensioners and students.

Labor members of the JPC dispute that these accounts are widely available and are concerned that they can not in all cases be regarded as low costs accounts.

A survey recently produced by the Australia Pensioners and Superannuants Federation questioned whether banks do actually provide adequate basic bank products. The APSF's Banking Affordability Report Card found that:

- The Commonwealth and ANZ passbook accounts offered pensioners only two over the counter transactions in a month.
- The ANZ's High Performance Passbook Deeming Account charged pensioners a $6 a month account keeping fees if they could not maintain an account balance of more than $2,000
- The Commonwealth Bank's special rebate of $6.00 a month for age and service pensioners is only available to customers who were retired as at 31 October 1997. A person who retired after this date would need $12,000 in savings to be able to conduct just one branch withdrawal in a week.

Labor Senators are also concerned that, where banks provide a low cost banking product, that they do not market it to their customers.

Ms Sharon Barker, Policy Officer from the Financial and Consumer Rights Council told the Committee that consumers did not know about the existence of fee free banking accounts. She stated, *"certainly some people have contacted me at the Financial and Consumer Rights Council stating that they have contacted banks to ask specifically about those accounts, their staff have not known either. I think it raises this issue of relationships with banks and the consumer having responsibility to contact the bank and ask about these services, when in some cases the bank staff do not even know these services exist."*

The argument proffered by the banks for the reason that bank fees have increased significantly is that following the deregulation of the financial system, user pays pricing was introduced to replace existing cross subsidies.

The banking industry's argument is that banks have subsidised the provision of low cost banking products by paying lower interest on deposits and higher interest on lending. Increased competition, the banks argue, has resulted in reduced interest margins and this has been compensated for by the removal of existing cross subsidies on retail transaction accounts.

The Reserve Bank in its report, *Notes on Bank Fees in Australia* concluded that falling interest margins have not, on average, been offset by higher fees. However, bank customers without a loan but with low balances and high transactions would not have benefited from these trends in banks' pricing practices.

The ABA in their submission to the JPC inquiry stated that competitive pricing is the best way to achieve benefits for customers. The ABA stated that, *"the move towards the pricing principle of explicit fees on banking and financial services was an inevitable consequence of the financial market deregulation policies pursued by successive Governments since the early 1980s."*

The ABA go on to say, *"pricing services efficiently provides consumers with choice to use lower cost distribution channels and, therefore, facilitates a more efficient financial system."*

The argument that the removal of cross subsidies justifies fee increases on retail transaction accounts has been used selectively by the banks.

While the banks would argue that the removal of cross subsidies justifies increasing the fee for an over the counter transaction in a banking branch to $3, it appears that banks have been reluctant to remove cross subsidies which they perceive are beneficial to their business and marketing plans.

In particular, banks charge fees for some products as 'loss leaders', and exempt some customers from fees based on the level of deposits and lending.

If efficiency was the sole criteria of a bank they would charge a customer for a transaction, regardless of how much money they had.

Of course in the banking industry there will always be cross subsidies to an extent. For instance, in a bank branch it is difficult for a bank to work out what costs should be attributed to conducting a transaction when the branch also serves a marketing purpose and bank tellers are explicitly directed to sell products to the customers that they serve.

Banks not only cross subsidise some customers, they cross subsidise some products.

In its submission to the inquiry, St. George Bank stated that *"the bank's telephone and internet banking fees are currently set as loss leaders to encourage the migration of customers to these new channels."*

St. George Bank went onto to say in their submission that, *"once confidence in the channel is established, pricing will be adjusted to a basis which more closely reflects the Bank's own costs in developing and providing the channel. In the long term, the only way the Bank can sustain a channel economically is by high volume usage."*

St George Bank's comments raise a number of issues.

It is clear the banks are seeking to migrate their customers from branch banking to electronic banking. St. George Bank has acknowledged that the only way that it can economically sustain a distribution channel is through high volume usage. But the result of migration of customers to electronic banking must be that the volumes of usage in other areas fall. As volumes of usage in these alternative distribution channels fall the banks will argue that they are not economic to sustain.

The result is clear. Banks will seek to migrate customers to electronic banking by charging less than the cost of these services. The migration of customers will mean that branch banking will become increasingly unsustainable. This will justify the banks increasing the fees for services conducted in a branch and will in turn justify the closure of 'non economic' branches. Having reduced their branch networks to a core level, banks will increase the fees on electronic banking, justifying their increases by pointing out that they were never charging the true cost of providing the service. In the case of ATMs this in fact happened. Five years ago two of the major banks did not charge fees for ATM transactions. Now all banks charge fees of around $0.60 for access to their own banks network of ATMs.

ANZ acknowledged to the Committee that the importance of their branch network as a proportion of total transactions is declining. The ANZ stated in their submission that branch transactions now account for 12% of transactions, compared to 20% three years ago.

The reality is that the banks different distribution channels compete with each other. Economies of scale in one channel can mean diseconomies of scale in other channels.

An example of the competition between the bank distribution channels is the Commonwealth Bank's current series of TV advertisements promoting internet banking in which a model skites that using internet banking means that she doesn't have to queue.

It is open to question whether it is a direct strategy of banks to force consumers to queue in order to force consumers to adopt other forms of banking.

On 30 June 2000 the Herald Sun newspaper released a survey of bank queues. The longest that a customer had to wait for service was 14 minutes and 5 seconds at a Bank of Melbourne Branch in the central business district.

What we are in fact witnessing is a 'reverse' cross subsidy. The promotion of electronic banking by charging services as loss leaders is directly undermining the viability of the branch network. The impact of these practices is to hurt those consumers who rely on branches for their banking services, predominantly the elderly and the poor.

According to the *National Office for the Information Economy* Australian adult Internet users tend to be younger, male, earning in excess of $75,000, employed, and living in metropolitan areas.

By subsiding internet banking by charging services as loss leaders, banks are effectively giving the wealthy a subsidy at the expense of poorer customers.

The fact that there are 'winners and losers' from the banks' fee regimes raises significant policy issues of how to ensure that banking services are provided to all Australians on an affordable basis.

<u>Direct Charging of ATMs</u>

The Chairman's Report recommended that to reduce ATM fees, banks be allowed to direct charge for ATMs.

Direct charging of ATM fees allows ATM owners to charge a different fee for each individual ATMs based on their different costs. Under this fee regime, ATMs with high volumes of transactions would normally have lower fees than ATMs with low volumes of transactions.

The ACCC and Reserve Bank have specifically recognised that a direct charging fee regime for ATMs would allow higher fees to be charged in remote areas.

The Chairman's recommendation to introduce a direct charging fee regime for ATMs was taken from the ACCC and RBA's Report, *Debit and Credit Card Schemes in Australia*. The ACCC and RBA stated in their report that ATM owners could choose to charge card-holders directly at the time the transaction was undertaken. The report stated:

*"..they could choose to charge such cardholders directly at the time the transaction is undertaken. Under this form of direct charging regime each ATM owner would decide how much to charge…"*

The ACCC and RBA go on to say, *"under current arrangement the ATM owner receives the same interchange fee for an ATM withdrawal from a given issuer, regardless of where that transaction is undertaken. High cost locations are therefore subsidised by low cost ATMs.* ***Under a direct charging regime, in contrast, ATM owners could vary the transaction fee according to the per-unit cost of individual***

***machines. This would provide an incentive to place more ATMs in higher cost (eg remote) locations, offering greater convenience for consumers willing to pay."***

It is clear that the result of the Chairman's recommendation would be to allow banks and other ATM providers to charge ATMs on the basis of cost. Under this kind of fee regime, an ATM in a remote area that had few transactions per day, and had increased telecommunication and cash handling costs, would be far more expensive than an ATM in the heart of Collins St or George St.

The question must be asked, do we want to create a situation where consumers in remote towns such as Port Hedland in Western Australia, that have significant cash handling and telecommunication costs for their ATMs and are likely to have fewer transactions per day than city ATMs, pay significantly more to access cash than city consumers?

Rural and regional consumers have already been hit hard by the closure of local branches. They should not be hit harder by increasing fees on ATMs which consumers in the city will not have to bear.

Labor members of the JPC are concerned that introducing a direct charging fee regime for ATMs without a commitment from the banks on the level of bank fees would lead to increases in ATM fees in rural and regional areas where the costs of providing ATM services are greater.

**Labor members of the JPC do not support the Chairman's recommendation to introduce a fee regime for ATMs based upon direct charging without an agreement on the level of bank fees.**

## Got you, hook, line and sinker

The fact that banks have been able to raise bank fees, and significantly raise bank revenue without losing customers suggests that there is a lack of competition in the market for retail transaction accounts.

In a competitive market we would expect that consumers who were dissatisfied with their banking services would change banks.

And yet, according to a survey conducted by the Australian Consumers Association in March 2000 despite the fact that only 13% of customers were satisfied with the larger banks, only 22% had changed institution in the last 5 years. Over 50% of respondents to the ACA survey had had their accounts at the same institution for 11 years or more.

One question that needs to be asked is why don't consumers change banks?

There are many reasons why the relationship between banks and consumers is 'sticky'.

Consumers may feel that there is no point going to another financial institution because 'all banks are the same.'

Banks are also able to 'hook' their customers. Once a consumer has a housing loan or a credit card, the process of changing financial institution is not costless.

In the case of a housing loan, transferring to another financial institution means re-financing the loan, including paying application fees and mortgage registration fees.

Even the simple case of opening a bank account requires proof of identity and a waiting period for new debit cards to be produced. Once an account is open, payroll departments need to be notified and direct debits need to be rearranged. Consumers also must pay Government taxes for transferring balances to the new bank account.

Another reason that consumers may be reluctant to change their bank may relate to the location of alternative banking branches and ATMs.

Another 'hook' that banks use is to offer frequent flyer points to consumers who use their credit cards to make payments. Banks do not charge consumers directly for making a credit card transaction which provides a price incentive compared to the cost of accessing ATMs, eftpos and cheques.

The effect of banks promoting credit cards has been that many consumers have chosen to use credit cards ahead of other forms of payment such as cash or eftpos. According to statistics from the Australian Payments Clearing Association, in the last three years alone the value of credit card transactions has increased from $2.5 billion a month to $6.4 billion a month. In the same period the volume of eftpos transactions only increased from $2.1 billion a month to $3.1 billion a month.

In its submission to the JPC inquiry, Telstra discussed the relationship between credit card payments and other forms of payment.

Telstra stated to the inquiry that in 1995-96, 9% of Telstra bills were paid by credit card. In the last financial year, 20% of credit cards were paid by credit card. Telstra attributed the increase in credit card payments to the prevalence of credit card loyalty schemes, which offered frequent flyer points in return for making transactions.

Telstra complained that the increase in credit card payments had a significant impact on the company's bottom line because credit card payments were based on a percentage of the value of the transaction rather than a flat fee.

Telstra indicated that they paid an interchange fee of 1.2% and that each credit card transaction averaged $166. Therefore Telstra's bank earned around $1.99 for each credit card transaction. According to Telstra's own figures, if 16.5 million transactions were made by credit card, Telstra alone contributed around $33 million in fee revenue to its bank.

The ACCC and Reserve Bank's recent report into Credit and Debit Card Schemes raised the issue of the impact of the current range of incentives to use credit cards on other payments methods.

The ACCC and RBA stated in its report that, *"under current arrangements, cardholders are effectively being paid by card issuers to use credit card as a payment* *instrument, but face a transaction fee for using a debit card (after a number of fee free transactions). This structure of incentives has encouraged the growth of the credit card network the expense of other payment instruments, particularly debit cards and direct debits, that consume fewer resources.* ***As a result, Australia has a higher cost retail payments system than necessary, and much of this higher cost is borne by consumers who do not use credit cards."***

It is clear that banks' promotion of credit cards is not only inefficient but distorts consumer choices. This in turn affects the ability of other distribution channels to achieve economies of scale and therefore lower costs to consumers. Ultimately it is low-income earners who are hit hardest by the banks promotion of credit cards, not only because they face higher retail prices but also because they are not able to avoid being charged bank fees on other payments channels such as eftpos and ATMs.

Banks seek to 'hook' those consumers whose business they want.

An example of this is the 'bait' that is thrown to 'super rich' customers. 'Super rich' consumers are offered individually tailored services, available 24 hours a day.
To qualify for these special banking services however, most banks require that their customers have an annual income of over $250,000 and will only offer services by invitation.

By comparison while banks are trying to pull in wealthy customers by offering enhanced service, the impact of branch closures and fee increases is to push out customers who do not generate substantial profits.

The problem is that low-income consumers have nowhere to go. They still require a banking service but banks do not believe that it is profitable to provide that service. The closure of bank branches and the increase of bank fees can be seen as a direct result of banks desire that each customer generates profits, whether or not they have the capacity to pay.

## Bank Fees: What's to Come?

In the UK the major banks recently agreed to drop all ATM fees and charges.

It seems that banks have a different attitude to fees in Australia and this can largely be attributed to the attitude of the Australian Federal Governments to bank fees.

The Federal Government have in the past endorsed banks increasing their fees.

Mr Joe Hockey MP, the Minister for Financial Services and Regulation told Parliament on the 24th November 1998 that the trade off for lower interest rates is higher fees. He stated, *"the trade off has been that people are starting to pay for some of the services that they are demanding of the bank."*

Despite the fact that there is clear evidence that banks have abused their market power to earn obscene levels of profit, the Federal Government does not believe that it needs to take action.

The Federal Government has time and time again rejected calls to direct the ACCC to formally monitor bank fees and charges.

It seems that the Federal Government not only endorses fee increases, they fully expect that bank fees will continue to increase.

The Chairman's Report stated that *"the present position is that the fees for service are more directly related to the cost of providing that service. Nevertheless, the costs of transaction services are still at least three times the fees collected."*

The warning for consumers is that bank fees will continue to increase until the banks feel that they are making a sufficient profit – or until the Federal Government takes action.

There is however an alternative to continuing bank fee increases.

In the UK, the major banks have recently agreed to drop all ATM fees and charges.

This followed a report into the UK payments system, the Cruickshank Report, which demonstrated that consumers were paying between £3-5 billion more for banking services than they should.

If it is good enough for UK banks to allow their customers to access cash for free, why shouldn't it be good enough for Australian customers?

Labor members of the committee are of the view that there is a point at which the banks must be told that enough is enough.

**A line must be drawn in the sand on bank fees.**

Labor members of the JPC believe that it is time for action. It is recommended that the Federal Government immediately formally direct the ACCC to monitor bank fees and charges. Labor members of the JPC recommend that banks accept a moratorium on increasing bank fees for a period of twelve months.

## Disclosure of Fee Information

On December 15 2000, NatWest Bank in the UK removed all charges from cash machines in the UK. Making the announcement, NatWest Bank stated to its customers that even where the owner of an ATM machine charged a fee, *"you will however be notified on screen of any charge before you withdraw cash. You can then stop the transaction if you do not wish to pay a fee."*

In the UK, banks have been able to publicly commit that they will provide fee information before a transaction is made so that a consumer can cancel the transaction.

Why can't this happen in Australia?

In Australia it appears that it is technically difficult to provide this solution to consumers.

Submissions to the JPC inquiry from banks stated that it was technically difficult to provide real time disclosure of fee information.

ANZ provided to the Committee a detailed break down of the steps that would be required to provide real time fee disclosure. The ANZ stated to the Committee that it estimated that its Transaction Banking System would require eight times the storage capacity to deliver complete real time disclosure. ANZ's supplementary submission went on to reject a 'halfway house' solution of providing consumers with the number of transactions that they had made in a month. ANZ said that while such a solution was technically possible it would require substantial duplication of systems.

ANZ Bank recently confirmed that it is considering using ATMs to advertise products and services. The Bank has stated that it conducting a trial on 92 ATMs and is considering rolling out an advertising program on 500 ATMs by July of this year.

It is ironic that at a time when Banks are arguing that it is technically difficult to provide real time disclosure of bank fees on ATMs, a new generation of ATMs is being marketed which will allow consumers to use ATMs to buy movie tickets, prepaid phone vouchers and stamps.

This new generation of ATMs is being market by US based company Diebold which three out of the four major banks use for their ATMs.

Diebold promote that banks can use their ATMs to:

- Dispense tickets, stamps, prepaid phone vouchers, coupons and other revenue-generating items
- Print coupons, statements, tickets and more
- Sell on-screen advertising
- Use screens to cross-sell other financial products and services

It would be unthinkable that a bank could provide its customers with the ability to purchase a movie ticket before it provided information on its own fees.

There is no doubt that when banks perceive that there is 'a buck to be made' that they are prepared to invest in new technology. However banks appear to regard investment in new technology that provides consumers with improved service as a cost.

Labor members of the JPC believe that it is technically possible to introduce a new few disclosure regime for ATMs.

It is difficult to understand how a UK bank, which uses the same types of ATMs and has the same kind of legacy computer systems is able to achieve real time disclosure, yet Australian banks cannot.

Labor members of the JPC accept that there are costs involved in establishing a better fee disclosure regime, but consider that these should be weighed against the benefits of a more informed market.

Labor members of the JPC note that the growth in the provision of ATMs by private operators has the potential to increase the level of uncertainty amongst consumers as to the level of fees for accessing ATMs. Without the introduction of a fee disclosure regime consumers will increasingly be uncertain as to how much they will be charged for using an ATM and will continue to find it difficult to manage their own transaction behaviour.

Labor members of the JPC believe that if there is commitment from the banks it is possible to introduce a new fee disclosure regime for ATM fees within a period of 12-24 months.

The key issue at stake is whether banks are committed to introducing change.

The recent uptake of internet banking by the major banks has demonstrated that if the banks have the internal commitment to introduce a new service then they can achieve it quickly and efficiently.

If the banks applied the same commitment that they applied to the introduction of internet banking to introducing a new fee disclosure regime for ATMs then there is no doubt that a disclosure regime would soon be operational.

Labor members of the JPC consider that ASIC has an important to play in facilitating the introduction of a real time fee disclosure regime and should continue with their role in facilitating the ASIC Transaction Fee Disclosure Working Group.

# Recommendations

## Reasons For and Impact of Bank Fee Increases

**1. Labor members of the JPC recommend that the Government immediately direct the ACCC to formally monitor bank fees and charges.**

**2. Labor members of the JPC recommend that banks accept a moratorium on increasing bank fees for a period of twelve months.**

**3. Labor members of the JPC recommend that banks offer fee free banking to pensioners and social security recipients.**

**4. Labor members of the JPC recommend that the Federal Government immediately direct the ACCC to hold an inquiry into why UK banks have been able to abolish ATM fees while Australian banks say they cannot.**

**5. Labor members of the JPC do not support the Chairman's recommendation to introduce a fee regime for ATMs based upon direct charging without an agreement on the level of bank fees.**

Labor Senators believe that the charging regimes for bank fees are not efficient and competitive and are based on extracting an obscene level of profit.

The fact that banks have been able to significantly increase fees and charges without losing market share is an indication that the market for retail transaction accounts is not competitive.

The Commonwealth Bank presented evidence to the committee that the revenue that banks earn from fees is only 1/3 of their costs.

The ramifications of this are clear. If user pays pricing was fully adopted bank fees would increase by up to three times their current levels. On current fee levels this would result in an over the counter transaction in a bank branch costing $9. Access to another banks ATM would cost $4.50 and an eftpos transaction would cost $1.80.

This is socially unacceptable. Banking is an essential service. Because banking is so essential to economic activity it is important that all Australians have access to affordable banking services so that they can participate on an equal footing in all forms of economic activity.

Banks have a social obligation to provide accessible and affordable banking services for all Australians. The impact of bank fees is falling disproportionately on consumers who do not qualify for fee exemptions. Low fee bank accounts that the banks were said to provide are not widely available and could not in all cases be regarded as low costs accounts.

Banks in the UK recently announced that they will no longer charge fees to access cash from ATMs. This followed a report into the UK payments system, the Cruickshank Report, which demonstrated that consumers were paying between £3-5 billion more for banking services than they should.

If it is good enough for UK banks to allow their customers to access cash for free, why shouldn't it be good enough for Australian customers?

Direct charging of ATM fees allows ATM owners to charge a different fee for each individual ATMs based on their different costs. Under this fee regime, ATMs with high volumes of transactions would normally have lower fees than ATMs with low volumes of transactions.

The ACCC and Reserve Bank have specifically recognised that a direct charging fee regime for ATMs would allow higher fees to be charged in remote areas.

Labor members of the JPC are concerned that introducing a direct charging fee regime for ATMs without a commitment from the banks on the level of bank fees would lead to increases in ATM fees in rural and regional areas where the costs of providing ATM services are greater.

## Disclosure of Fees

**Labor members of the JPC recommend that:**

- **Banks introduce a real time fee disclosure regime for ATMs within a period of 12-24 months.**
- **Banks provide to a customer information on the cost of a transaction before the transaction is made so that a consumer has an opportunity to cancel the transaction.**
- **Banks provide to customers a break down of fees charged on monthly statements, including a comparison of fees over previous months so that consumers can compare their transaction activity.**

**Labor members of the JPC recommend that ASIC continue its role in facilitating the introduction of a real time fee disclosure regime through the ASIC Transaction Fee Disclosure Working Group.**

Labor members of the JPC note that in the UK, banks have been able to publicly commit that they will provide fee information before a transaction is made so that a consumer can cancel the transaction. If this can happen in the UK, which has similar ATMs and legacy computer systems, why can't it happen in Australia?

Labor members of the JPC believe that it is technically possible to introduce a new few disclosure regime for ATMs.

Labor members of the JPC accept that there are costs involved in establishing a better fee disclosure regime, but consider that these should be weighed against the benefits of a more informed market.

Labor members of the JPC believe that if there is commitment from the banks it is possible to introduce a new fee disclosure regime for ATM fees within a period of 12-24 months.

**Labor members specifically reject the Chairman's Report Findings of Fact that:**

**1. Bank fees have increased *'as a result of the adoption of a user-pays charging structure by financial institutions on a range of services.'***

***2. There is also substantial evidence to indicate that financial institutions have historically under-priced the cost of electronic 'banking' transactions, but are now aligning charges more closely with the marginal cost of providing the service.'***

***3. The Committee accepts the evidence presented that up to 75% of customers pay no fees at all on personal accounts and that most banks provide substantial fee discounts and exemptions for people who are financially disadvantaged or disabled, and for pensioners and students.***

***4. The Chairman's report notes that most banks provide substantial fee discounts and exemptions for people who are financially disadvantaged or disabled, and for pensioners and students.***

1. Cross subsidies still exist in the banking system however cross subsidies tend to favour wealthy consumers at the expense of poorer consumers. Exemptions are available to consumers with housing loans and large deposits. Banks also charge some services as 'loss leaders.' This advantages wealthier consumers who are more likely to use subsidised services such as internet banking.
2. Substantial evidence was presented to the Committee from the ACCC and RBA that bank fees are not efficient and competitive. Bank fees are based, not upon aligning charges with marginal costs, but with extracting obscene levels of profit.
3. The ABA **actually** said that , "depending on the provider, 30-75% of customers do not pay fees and charges for services associated with transaction accounts." One way of reading this statement is to say that up to 75% of customers do not pay bank fees. Another way is to say that up to 70% of customers do pay fees.
4. Labor members of the JPC dispute low cost banking accounts are widely available and are concerned that they can not in all cases be regarded as low costs accounts.

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| Mr Bob Sercombe, MP | Senator Stephen Conroy |
| Senator Barney Cooney | Mr Kevin Rudd, MP |