CHAPTER 2

PROPOSED DIRECT CHARGING REGIME

Introduction

2.1 In March 2003, the ATM Industry Steering Group (AISG) released a discussion paper on proposed reforms to the ATM interchange fee arrangements. At present, retail ATM fees are imposed by institutions on their cardholders. ATM owners/operators do not charge fees directly to the cardholder. When cardholders transact through foreign ATMs, the cardholder's institution pays an interchange fee to the ATM owner/operator.

2.2 The AISG discussion paper canvassed changes to the current system. It proposed a direct charging regime whereby an ATM owner/operator may levy a direct charge on all cardholders that use its ATM service. This charge is determined by the ATM owner operator and debited to the cardholder's account at the time of transaction. A charge may also be set by the card issuer to enable it to process the transaction.

2.3 The Committee notes that the reforms proposed by the AISG place a heavy reliance on competition both to improve consumer access to ATM terminals and to contain the fees and charges attached to their use. In theory, the reasoning appears compelling but in practice, as shown in the Committee's main report, competition can produce winners and losers. In many cases, those living in regional, rural and remote Australia have not been the beneficiaries of competition in the banking industry.[1] With this in mind, the Committee decided to look closely at the current ATM fee structure, the proposed changes to this structure and its likely influence on those living in country Australia.

2.4 In this chapter, the Committee:

- examines the current bilateral interchange fee structure;
- reviews the findings of the study by the Reserve Bank of Australia and the Australian Competition and Consumer Commission into the efficiency of the ATM networks;
- discusses the work of the AISG and their proposal to reform the ATM fee structure; and
- analyses the proposed direct charge fee structure and its implications for those living in rural, regional and remote Australia.

---

1 See chapter 5 of the main report, *Money Matters in the Bush*.

The current ATM fees and charges

2.5 An ATM transaction can involve at least three parties—the cardholder, the card issuer (the financial institution that issues the debit card) and the financial institution that owns the ATM. There are infrastructure costs associated with the establishment and maintenance of the ATM network as well as costs associated with stocking the machine with cash and processing transactions. Financial institutions seek to recover the costs associated with an ATM transaction and earn a return on their capital investment in the ATM facility by imposing a charge.

2.6 In the case of their own customers, financial institutions normally treat access to their ATM as part of a transaction account. According to the Reserve Bank of Australia (RBA) and the Australian Competition and Consumer Association (ACCC):

> The costs of providing that account are recovered through account maintenance fees, payment of below-market rates of interest on balances and transaction fees, which normally allow a number of fee-free transactions per month.[2]

2.7 The situation is different for a transaction using a foreign ATM. Currently around 40 per cent of ATM transactions are undertaken by customers using ATMs owned by other financial institutions.[3] In such cases, the customer does not have an account with the ATM owner and the owner must seek to recoup costs in other ways. The RBA and the ACCC explained in greater detail:

> Under the present interchange model, a cardholder, (where charged for foreign ATM transactions) pays a single, bundled fee (that includes the cost of the interchange fee) to their financial institution or card issuer for a foreign ATM transaction. The card issuer transmits the majority of the foreign fee to the ATM owner/operator in exchange for provision of ATM access.[4]

Under a direct charging model the components of the foreign ATM fee would be unbundled and a system with no interchange payments implemented.[5]

2.8 To facilitate the current interchange arrangement, the ATM owner enters into a bilateral agreement with the card issuer who wants its customers to have access to that particular ATM network. According to the RBA and the ACCC:

---

2 Reserve Bank of Australia and the Australian Competition and Consumer Commission, *Debit and Credit Card Schemes in Australia: A Study of Interchange Fees and Access,* October 2000, p. 33.

3 New data collected by the Reserve Bank of Australia shows that 'foreign ATM transactions have increased significantly to more than 40 per cent of ATM cash withdrawals in 2002, up from around 30 per cent in 1999'. Reserve Bank of Australia, 'The Changing Australian Retail Payments Landscape; *Reserve Bank of Australia Bulletin,* July 2003, p. 7.

4 ATM Industry Steering Group, Discussion Paper, p. 16 of 24.

5 ATM Industry Steering Group, Discussion Paper, p. 16 of 24.

> The agreement covers matters such as the authorisation of transactions and technical procedures, and includes an interchange fee to be paid by the issuer to the ATM owner. The interchange fee is the wholesale price of access to the ATM network, and is designed to reimburse the ATM owner for costs incurred in providing a service to the issuer's customers.[6]

2.9 In 2000, there were almost 60 bilateral interchange agreements in Australia. Although interchange fees vary from agreement to agreement, within each agreement the interchange fee is the same for all transactions of a certain type initiated by the issuer's customers no matter where the ATMs are located.[7]

2.10 The fees are determined in confidential agreements and other participants in the ATM networks do not know the full range of interchange fees. In 2000, according to the RBA and ACCC, interchange fees for cash withdrawals averaged around $1.03 per transaction and have changed little over the past decade. The cost of providing ATM cash withdrawals averaged $0.49 per transaction.[8]

Study by the Reserve Bank of Australia and the Australian Competition and Consumer Commission

2.11 In 2000, the Reserve Bank of Australia and the Australian Competition and Consumer Commission conducted a study which concentrated on two aspects of the ATM network—interchange fees and the conditions of entry into the industry.[9] The study was concerned with the economic efficiency of the networks and whether they were delivering the best possible service at the lowest cost to consumers.[10]

2.12 While the average cost of an ATM withdrawal is just under $0.50, the study showed that interchange fees are a substantial mark-up on the costs of providing ATM services. Card issuers pass these fees on in full to their customers using foreign ATMs

6 Reserve Bank of Australia and the Australian Competition and Consumer Commission, *Debit and Credit Card Schemes in Australia: A Study of Interchange Fees and Access,* October 2000, footnote 16, p. 33.

7 Reserve Bank of Australia and the Australian Competition and Consumer Commission, *Debit and Credit Card Schemes in Australia: A Study of Interchange Fees and Access,* October 2000, footnote 16, p. 33.

8 Reserve Bank of Australia and the Australian Competition and Consumer Commission, *Debit and Credit Card Schemes in Australia: A Study of Interchange Fees and Access,* October 2000, p. ii. This figure differs slightly from the amount of $1.06 given on page 33 of the study.

9 Reserve Bank of Australia and the Australian Competition and Consumer Commission, *Debit and Credit Card Schemes in Australia: A Study of Interchange Fees and Access,* October 2000, p. i.

10 Reserve Bank of Australia and the Australian Competition and Consumer Commission, *Debit and Credit Card Schemes in Australia: A Study of Interchange Fees and Access,* October 2000, p. i.

with many issuers adding a further margin.[11] Indeed, interchange fees paid to ATM owners averaged just over $1.00 for cash withdrawals, which is double the average cost. The study accepted that some of this margin could represent the 'required return on capital'. Despite the lack of data on the 'required rate of return on capital', the study estimated that 'a margin over costs of only a few cents per transaction would yield a competitive rate of return on capital for the provision of ATM services'.[12] Approximately half of the institutions charge their customers more than the maximum interchange fee they pay, often substantially more.

2.13 Similarly, the study found a substantial mark-up over the costs for balance enquiries where the average interchange fee for a balance enquiry was $0.74. This fee represented twice the average cost. Again, most card issuers attached an additional margin when passing the fee on to customers. Indeed, the study maintained that many card issuers charge the same foreign ATM fee for balance enquiries as for cash withdrawals despite the interchange fees for this transaction being lower.[13]

2.14 The study also showed that ATM interchange fees have remained largely unchanged over the past decade even though there are grounds to believe that costs may have fallen. It suggested that ATMs have become cheaper, that at the upper end of the range they have become more sophisticated and are capable of undertaking a variety of functions while at the other end there are now more basic, low-cost machines available. It also pointed to the substantial reduction in costs of data processing and telecommunications equipment. In brief, it concluded that 'if ATM interchange fees were initially based on costs, they have not shown any flexibility in responding to costs in recent years'.[14]

2.15 Dr John Veale, Acting Assistant Governor (Financial System), RBA, told the Committee that the joint study had trouble reconciling the large gap between the $0.50 cost of providing the service and the average of about $1.35 that was actually charged.[15]

2.16 Moreover, the study could not see competitive forces that were likely to push the two numbers closer together. In other words, the substantial margin between ATM

---

11 Reserve Bank of Australia and the Australian Competition and Consumer Commission, *Debit and Credit Card Schemes in Australia: A Study of Interchange Fees and Access,* October 2000, pp. 36–7.

12 Reserve Bank of Australia and the Australian Competition and Consumer Commission, *Debit and Credit Card Schemes in Australia: A Study of Interchange Fees and Access,* October 2000, p. 38.

13 Reserve Bank of Australia and the Australian Competition and Consumer Commission, *Debit and Credit Card Schemes in Australia: A Study of Interchange Fees and Access,* October 2000, p. 37.

14 Reserve Bank of Australia and the Australian Competition and Consumer Commission, *Debit and Credit Card Schemes in Australia: A Study of Interchange Fees and Access,* October 2000, p. 38.

15 *Committee Hansard*, 5 November 2003, p. 610.

interchange costs and fees had not generated the competitive pressure necessary to drive interchange fees downward. To explain why interchange fees had not fallen, the study noted the lack of incentive for financial institutions to negotiate lower fees. It explained:

> For financial institutions as a whole, interchange fees are not a cost; fees paid and received net out to zero, but institutions receive a flow of revenue from foreign ATM fees. Cardholders have the strongest interest in lower interchange fees but cannot influence ATM owners directly. They do not see the interchange fee; they only see the foreign ATM fee. Under current arrangements, their only alternative is to restrict withdrawals to their own institution's ATMs or to undertake the costly process of moving their transaction account to another institution which charges lower foreign ATM fees. Under these circumstances, it is relatively easy for card issuers to pass on the whole cost (or more than the whole cost) of the interchange fees to their cardholders.[16]

In Dr Veale's words, the card issuers had no incentive to say to ATM owners, 'we want you to lower the fees' because the issuers in turn 'simply passed those fees on to cardholders and added a margin to it in the form of the foreign ATM fee'.[17]

2.17 The study suggested that alternatives were available to the current interchange model including a 'direct charge' system. It could see advantages in such a regime that would encourage transaction fees to move more in line with costs and promote transparency. It stated that such a system would for a start put 'the ATM owner in a direct economic relationship with the cardholder, rather than only an indirect one via the issuer'. It explained further:

> If the consumer is to exert any direct influence on pricing—for example, by patronising the less expensive ATMs—this regime would achieve it more effectively than the present system.
>
> As an additional factor, under current arrangements 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.[18]

---

16 Reserve Bank of Australia and the Australian Competition and Consumer Commission, *Debit and Credit Card Schemes in Australia: A Study of Interchange Fees and Access,* October 2000, p. 40.

17 *Committee Hansard*, 5 November 2003, p. 610.

18 Reserve Bank of Australia and the Australian Competition and Consumer Commission, *Debit and Credit Card Schemes in Australia: A Study of Interchange Fees and Access,* October 2000, p. 41.

2.18 According to the study, direct charging would also make transaction charges obvious to ATM users.

Inquiry by the Parliamentary Joint Statutory Committee on Corporations and Securities

2.19 During 2000, the Parliamentary Joint Statutory Committee on Corporations and Securities conducted an inquiry into fees on electronic and telephone banking. As part of its inquiry, the Committee examined the fee structure of ATMs.

2.20 The major issue before the Committee was whether deregulation and competition had resulted in a more efficient market with increased benefits for consumers, or whether market forces had failed, bringing little benefit to retail customers.

2.21 It heard evidence, mainly from the banks, that supported the view that competition, including market-based pricing, was the best way to increase benefits for consumers. They argued that the deregulation of financial markets had led to a user pays principle for retail transaction accounts and explicit fees for services which translated into a more efficient financial system that was fairer to consumers.[19] It also heard arguments that challenged this view that effective competition existed between the banks and therefore that competition had been of benefit to retail customers. Those taking this position questioned the proposition that the free market would control fee increases.[20]

2.22 The Committee recommended that interchange fees between banks in relation to foreign ATM transactions be abolished immediately and replaced by direct charging with the effect of reducing foreign ATM transaction fees from approximately $1.50 to $0.50.[21]

2.23 The Labor members of the Committee opposed the introduction of the proposed direct charging regime. They were concerned that direct charging of ATM fees would allow ATM owners to charge a different fee for each individual ATM based on their different costs. Thus, ATMs with high volumes of transactions would normally have lower fees than ATMs with low volumes of transactions. They concluded:

> …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

19 Parliamentary Joint Statutory Committee on Corporations and Securities, *Report on Fees on Electronic and Telephone Banking,* February 2001, p. 3.

20 ibid. For example see arguments put forward by the Consumer Law Centre Victoria Limited, p. 8.

21 ibid, p. 37.

fees in rural and regional areas where the costs of providing ATM services are greater.[22]

2.24 In September 2001, the Committee[23] wrote to fifteen banks and other organisations requesting advice on developments in fee disclosure regimes, with particular reference to the conclusions and recommendations of the Committee's Report.[24] Few of the twelve respondents commented on the recommendation to introduce a direct charge regime. Those who did refer to the recommendation, pointed to their participation in the work of an industry steering group convened by the RBA.

The Committee now looks at the work of this group.

The ATM Industry Steering Group (AISG) and its proposal for the introduction of a direct charge regime

2.25 The AISG is an industry working group formed to facilitate discussions about the options for reform of ATM interchange fee arrangements. In March 2003, it released a discussion paper for public consultation on proposed reforms to the ATM interchange fee arrangements. The paper put forward a direct charge model and invited public comment on its proposal.

2.26 The reform of the fee structure will require regulatory approval through authorisation by the ACCC. The intention of the AISG is, after consulting with stakeholders and the resolution of key implementation issues, to develop a model for reform to be presented to the ACCC.

2.27 Under its direct charge model, the framework of bilateral interchange fees would be dismantled. The proposed model removes the need for the card issuer to reimburse the ATM owner/operator for providing the ATM service and hence for the card issuer to recover the interchange fee from cardholders. Instead, an ATM owner/operator would levy a direct charge on all cardholders who use its ATM service. The size of this charge would be determined solely by the owner/operator and

---

22 Labor Members Report, *Bank Fees: Up, Up and Away*, in Parliamentary Joint Statutory Committee on Corporations and Securities, *Report on Fees on Electronic and Telephone Banking,* February 2001, p. 2.

23 Subsequent to the commencement of the Financial Services Reform Act 2001 on 11 March 2002, the name of the Parliamentary Joint Statutory Committee on Corporations and Securities changed. Schedule 1, Part 2 of the Act, at 5 Paragraph 1(1) (d), amended the Australian Securities and Investments Commission Act 2001 so that the Parliamentary Joint Committee on Corporations and Securities became the Parliamentary Joint Committee on Corporations and Financial Services (Part 14 of the ASIC Act).

24 Organisations contacted included Adelaide Bank Ltd, ANZ Banking Group Ltd, Bank of Queensland Ltd, Bank of Western Australia Ltd, Bendigo Bank, Commonwealth Bank of Australia, National Australia Bank Ltd, St George Bank Ltd, Suncorp-Metway Ltd, Westpac Banking Corporation, the Australian Banking Industry Ombudsman, Australian Banker's Association, Credit Union Service Corporation (Aust) Ltd, Australian Association of Permanent Building Societies, and the Australian Securities and Investments Commission.

debited to the cardholder's account at the time of the transaction. The fee for providing the service should reflect the costs of providing the service plus a margin for return on investment.[25] In other words, the ATM interchange fee would be set at zero and the components of the foreign fee would be unbundled.

2.28 This unbundling of the foreign fee creates two elements—a charge set by the ATM owner/operator to provide the ATM service and the charge set by the card issuer to enable it to process the transaction. The paper explained further:

> In this way a fee may be charged directly to the cardholder by the ATM owner/operator, with the option of a separate fee charged by the card issuer that processes the transactions. The amount of the ATM owner/operator and card issuer fees would reflect the cost of providing access to the ATM networks and a margin for a return on investment. It would be a requirement that the ATM owner/operator fee is disclosed in real time, at the point of the transaction and that any issuer fee should be transparent and clear to cardholders.[26]

2.29 In formulating its proposal for reform, the Steering Group identified the following nine principles as the basis for the development of a direct charging model for foreign ATMs:

- the interchange fee would be reduced to zero;
- the existing foreign fee would be unbundled and become two fees, the ATM owner/operator fee and the issuer fee;
- ATM owners/operators would be permitted to charge a fee directly to any cardholder using their ATM;
- the amount of the fee would be at the discretion of each ATM owner/operator and fees may vary according to several factors;
- a cardholder would be notified of this charge prior to committing to the transaction;
- card issuers would be permitted to charge a transaction-based fee to cardholders;
- the amount of the fee would be at the discretion of each issuer and fees may vary according to several factors;
- ATM owners/operators and card issuers would ensure that these charges are transparent and obvious to cardholders;
- the amount of the unregulated ATM owner and card issuer fee would reflect the cost of providing access to ATM networks and a margin for a return on investment.[27]

---

25 ATM Industry Steering Group, Discussion Paper, p. 16 of 24.

26 ATM Industry Steering Group, Discussion Paper, p. 3 of 24.

27 ATM Industry Steering Group, Discussion Paper, p. 21 of 24.

2.30 The main argument in favour of direct charging is that more flexible pricing of ATM transactions would 'facilitate a balance between demand for ATM services and the supply of these services that is efficient for the community'.[28] It would establish an environment for price competition between ATM service providers where the freedom to set fees would be 'expected to stimulate provision of ATM services and make them flexible and responsive to changes in costs and cardholder demand'.[29] Such a model 'would assist competition by making cardholders more aware of the costs of ATM services offered through different machines and by different ATM owners/operators'.[30] The discussion paper maintained that increased competition brought about by the increased transparency of prices to cardholders should align fees more closely to costs without the need for any regulatory control of cardholder pricing.

2.31 It argued further that the proposed model would result in improved service delivery in currently under-serviced locations because the deregulation of fee levels would enable suppliers to charge to cover the cost of establishing and maintaining terminals in such locations.[31]

2.32 Contrary to this viewpoint, consumer representatives were not confident that the proposed reforms would produce the anticipated benefits for customers.[32] To test the veracity of the assumptions made about the proposed direct charge regime, the Committee conducted a public hearing in the form of a roundtable discussion.

Views on the proposal to introduce a direct charge regime

2.33 During the discussion, Mr David Bell, CEO, Australian Bankers' Association, reiterated the advantages expected to flow from a direct charge regime. He explained that one of the clear benefits of the proposed reforms is that ATM services will be available in locations that currently do not have them and under the current system are highly unlikely to have them.[33] He referred to the 21,000 ATMs in Australia and stated:

> 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.[34]

---

28 ibid, p. 7.

29 ATM Industry Steering Group, Discussion Paper, p. 17 of 24.

30 ibid, p. 7.

31 ibid, pp. 17–18.

32 See Australian Consumers' Association, Submission to the ATM Industry Steering Group on Interchange Reform.

33 *Committee Hansard*, 5 November 2003, p. 627.

34 *Committee Hansard*, 5 November 2003, p. 630.

2.34 He also argued that additional competition would have the effect of placing downward pressure on prices.[35] He drew on the general economic argument that if you increase the supply of ATMs, necessarily the price should drop.[36] In summary, he maintained that financial services customers and the wider community would benefit from a direct charge regime because there would be:

- pricing transparency—ATM owners would be required to notify users of the service fee before an ATM transaction is undertaken;
- cost-reflected pricing—ATM owners would be encouraged to better align user fees with underlying costs; and
- improved rural accessibility—ATM owners would be attracted to rural areas because of the ability to cover costs.[37]

2.35 The Committee accepts the advantages that transparency in price delivers to the customer and without hesitation supports moves to improve transparency especially the introduction of a real time fee disclosure regime for ATMs. This recommendation was made in the Committee's 2001 report on fees on electronic and telephone banking and, for the purposes of this report, the Committee underlines this recommendation and urges the banking industry to move ahead expeditiously with this proposal.

2.36 The Committee, however, believes that the assumptions underpinning the pricing and accessibility aspects of the proposed reform need further exploration. The following section looks at the likely influences of the proposal on the fees and charges for ATM services and their availability. The focus is on ATM services in rural, regional and remote Australia.

The pricing and accessibility of ATM services in rural, regional and remote Australia under the direct charging regime

2.37 In addressing the issue of whether direct charging would result in rural customers paying too much for foreign transactions, Mr David Bell noted that differential pricing has not been a feature of banking in Australia since the deregulation of the system in the 1980s. He identified four main constraints that, in his opinion, would ensure that ATM fees would not be excessive:

- the actual costs of providing ATM services in regional Australia which he suggested are not much different from providing services in non-regional Australia;
- the ability of customers to go to other ATMs, EFTPOS and giroPost if pricing were too high;

---

35 *Committee Hansard*, 5 November 2003, p. 628.

36 *Committee Hansard*, 5 November 2003, p. 622.

37 *Committee Hansard*, 5 November 2003, p. 609.

- low barriers to entry and the very vibrant ATM industry in Australia; and
- the reputation of financial institutions and the importance for them to demonstrate that prices are fair, reasonable and represent value for money.[38]

In the following section, the Committee examines these four main forces identified as likely to keep fees in check.

Costs of providing the service

2.38 Dr Veale conceded that there would be some areas where ATM costs would be more than they are now but that increase would almost certainly occur in places where ATMs were not currently located.[39] Overall, he anticipated that on average competitive pressures would push prices down because 'there is that big gap between the $0.50 cost of providing these services and the $1.35 that people are paying at the moment'.[40]

2.39 Mr Bell could see no reason for costs to push ATM prices in regional, rural and remote Australia ahead of those in metropolitan areas. He stated:

> …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.[41]

2.40 Mr Chris Connolly, Director, Financial Services Consumer Policy Centre, University of New South Wales, observed that usually the line from financial institutions is exactly the opposite. In his experience, banks maintain that there are additional expenses in providing services in regional areas: that they have to spend more money to service regional customers than city customers.[42] Indeed, this interpretation is consistent with the evidence before the Committee which certainly indicated that ADIs are reluctant to provide ATMs to areas in Australia where markets are small and distant from major centres because of the costs involved in installing and servicing such facilities.[43] The costs of transporting cash are also significant. For

---

38 *Committee Hansard*, 5 November 2003, p. 616.

39 Ms Michele Bullock supported this view with her statement that 'What you can say is that where there are not currently ATMs, it costs more than $1 per transaction to put one there.' *Committee Hansard*, 5 November 2003, p. 632.

40 *Committee Hansard*, 5 November 2003, p. 632.

41 *Committee Hansard*, 5 November 2003, p. 621. Mr Bell explained some of the component costs which included—operations, signage, switching and transaction processing, the cost of holding cash, locking, balancing and sourcing it, communications line rental, installation, leasing, appreciation, maintenance costs and rent. He stated further that he 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'. *Committee Hansard*, 5 November 2003, p. 626.

42 *Committee Hansard*, 5 November 2003, p. 625.

43 See Parliamentary Joint Committee on Corporations and Financial Services, *Money Matters in the Bush,* chapter 11, paragraphs 11.18 and 11.19.

example Mr David Shoobridge, Town Clerk, Nauiyu Nambiyu Community Government Council, observed that banks are not anxious to provide ATMs to isolated areas given the problems of security of the machine and its contents and the high costs of servicing the equipment.[44]

2.41 Dr Veale looked at the costs associated with providing an ATM service from another aspect. In his opinion, advances in technology would continue to dampen the costs of providing an ATM service particularly in rural, regional and remote Australia. He explained:

> …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.[45]

He stated further:

> 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.[46]

2.42 The Committee accepts that advances in modern technology and developments in the design of ATMs have allowed the production of machines that are smaller and easier to maintain. Nonetheless, the Committee believes that the costs involved in maintaining and servicing the machine, particularly in remote areas, will remain relatively high while at the same time the turnover remains relatively low.

---

44 ibid, p. 237.

45 *Committee Hansard*, 5 November 2003, p. 623.

46 *Committee Hansard*, 5 November 2003, p. 624.

Alternatives to ATMs

2.43 Dr Veale explained that if the interchange fee is abolished and the ATM owner charges the cardholder directly, the cardholder, if he or she does not like the price at one ATM, would always be able to go to another. In his view, provided there is a line of people willing to put in ATMs in different parts of the country, that would at least put on some competitive pressure.[47]

2.44 Reinforcing this view, Mr Bell told the Committee that if prices are too high customers have the option of avoiding these charges by choosing another means to withdraw cash. He stated:

> 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.[48]

2.45 Put simply, the theory argues that if ATM owners do not peg their prices at an appropriate level, people will not use them. Mr Gordon Anderson, Australian Association of Permanent Building Societies, supported this view. He stated bluntly that if the fee is too high, the ATM will not be used and it will force either the ATM to close down or the price to be reduced to one that the market finds acceptable. He explained further 'or they could go to an alternative. There is EFTPOS, giroPost, Australia Post; there are alternatives.'[49]

2.46 This argument may well apply in areas where there is competition but has no practical application where competition is weak. Ms Jenni Chandler, CEO, Reconciliation Australia, argued that this reasoning ignored the realities of banking in remote areas. She told the Committee:

> 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.[50]

---

47 *Committee Hansard*, 5 November 2003, p. 611.

48 *Committee Hansard*, 5 November 2003, p. 616.

49 *Committee Hansard*, 5 November 2003, pp. 637–8.

50 *Committee Hansard*, 5 November 2003, p. 615. See also the submission by the Australian Consumers Association in response to the AISG's discussion paper, p. 3. It stated 'Customers in lower volume areas are unlikely markets for such competition both on the basis that costs of establishing and maintaining ATM terminals in their areas are greater, and costs recovered through direct charges will therefore be higher, and they have less opportunity to shop around to exert downward pressure on prices. A clear analogy is petrol pricing, where urban consumers consistently pay power petrol prices than regional and rural consumers.'

2.47 Indeed, the Committee found again and again during its broader inquiry into the availability of banking and financial services in regional, rural and remote Australia that some areas in the country are struggling to support one ATM or EFTPOS service. People living in such communities simply do not have a range of banking options before them. In effect, they are a captive market unable to exert pressure on financial institutions to better serve their interests.

2.48 The Committee appreciates that under the proposed regime there are localities in rural, regional and remote Australia that, because of the higher costs in delivering the service and the low turnover, may face higher fees for using a foreign ATM. In many cases the higher charge may genuinely reflect the cost of providing that service and may provide an acceptable and indeed welcome service for the community. The Committee, however, is concerned that without safeguards built into a direct charging regime, people living in towns and communities where there are few banking options may face charges well in excess of the costs involved in providing the service.

New entrants to the industry

2.49 To counter the temptation to charge high fees, Dr Veale suggested that the low costs and unrestricted entry to the market means that if somebody does try to take advantage then a competitor will come in to undercut the current provider.[51] In his opinion, the barriers to entry in providing ATMs are low.[52] He cited the increase in the number of independent deployers, who account for about 30 per cent of ATM operators, as an example of the ease of entry into the industry.[53]

2.50 Consumer groups, however, drew attention to low volume areas which are unlikely markets to attract competition. Overall, Mr Connolly argued that, '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'.[54]

2.51 One of the recurring themes in the Committee's report was the absence of robust competition in the retail banking industry in country Australia with the consequent erosion of banking services in these areas and the lack of new entrants to make up for the shortfall. In brief, it found that the provision of retail banking services in regional, rural and remote Australia is not driven by competition and hence the market is sluggish in responding to consumer demands.[55]

---

51 *Committee Hansard*, 5 November 2003, p. 623.

52 *Committee Hansard*, 5 November 2003, p. 624.

53 *Committee Hansard*, 5 November 2003, p. 625.

54 *Committee Hansard*, 5 November 2003, p. 625.

55 See chapter 5 of the main report, *Money Matters in the Bush*.

Banks and their reputation

2.52 During the roundtable discussion, Mr Bell referred to the issue of reputation and the need for financial institutions 'to demonstrate that prices are fair and reasonable and represent value for money'.[56] Apart from this reference, little discussion was generated about whether the desire of banks to uphold their reputation would be a significant force in keeping ATM prices down in regional, rural and remote Australia.

2.53 In looking specifically at fees and charges, the Australian Consumers' Association feared that the unbundling of the foreign ATM fee would provide an opportunity for increased fees. It referred to bank annual and interim reports which, in its view, regularly demonstrate the enormous contribution increased fee revenue has made to the above-average profitability of the Australian banking sector. It submitted further:

> Australian banks do not have a good track record of passing on cost reductions to consumers, or keeping fees tied to the cost of providing a service. Fees continue to proliferate, with banks finding new ways of levying charges on consumers. From increased fees for over-the-counter transactions, to electronic, penalty and credit card annual fees, banks have used fees to boost profits and direct consumer behaviour.[57]

2.54 Mrs Margaret Brown, Country Women's Association of New South Wales, typified the attitude of many retail banking customers in country Australia when she told the Committee:

> 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 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 or 600 people?[58]

2.55 The Committee remains concerned that while the desire of banks to maintain a respected standing in the community and to avoid any public backlash may act as a dampener on increasing prices, it would in the long term offer no guarantee that they would act to keep prices low.

Summary of views on the direct charging proposal

2.56 Without doubt, witnesses to the Committee were not happy with the current interchange arrangements and advocated a change to the existing fee structure. It was recognised as too inflexible and resulted in prices bearing little resemblance to the costs associated with providing an ATM service. Mr Luke Lawler from CUSCAL

---

56 *Committee Hansard*, 5 November 2003, p. 616.

57 Submission in response to the ATM Industry Steering Group's discussion paper, p.5.

58 *Committee Hansard*, 5 November 2003, p. 636.

concurred with the findings of the joint study by the RBA and the ACCC that there were problems with the current interchange arrangements.[59]

2.57 Some, however, expressed serious doubts about whether the proposed direct charge regime would produce the anticipated benefits for consumers in regional, rural and remote Australia. There was a real concern that while accessibility to ATM services might improve, several adverse consequences could result.

2.58 Mr Connolly stated:

> 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.[60]

2.59 He explained further:

> 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.[61]

Overseas models

2.60 During the public hearing a number of references were made to overseas experiences both to support the introduction of a direct charging regime and to note the warning bells issuing from their experiences.[62] The Committee did not examine in

---

59 *Committee Hansard*, 5 November 2003, p. 612.

60 *Committee Hansard*, 5 November 2003, p. 630.

61 *Committee Hansard*, 5 November 2003, p. 613.

62 See for example, comments by Mr Veale, Mr Bell, Ms Wolthuizen *Committee Hansard*, 5 November 2003, pp. 611, 616 and 623

any great detail ATM fee regimes in overseas countries. It accepts that the AISG's proposal does not fit exactly any of the models discussed and further that Australia's banking system has developed its own unique features in servicing a country geographically distinct. The Committee, however, notes the conclusions drawn by the RBA from its examination of overseas experiences with direct charging. It found:

> These conclusions suggest all ATM owners would be under competitive pressure in a direct charging regime, so long as there are no unreasonable barriers to entry to the ATM business. Direct charging would bring greater availability of ATMs but with higher fees on some machines. These machines may genuinely have higher costs per transaction (for example remoter machines over low transaction volumes) in which case a higher direct fee is an efficient outcome. In most cases those machines would not exist prior to the introduction of direct charges because it was not economic to put ATMs in these higher cost locations when the interchange fee was the only revenue source.[63]

2.61 Even though Australian regulators may have important lessons to learn from overseas experiences, the Committee emphasises that of far greater importance in considering reforms is to have a thorough appreciation of recent developments in Australia's banking industry, the reasons behind branch closures, the upward trend in bank fees and most importantly the absence of competition in some areas of Australia. Any contemplated changes should give close consideration to these matters.

Committee's views

2.62 Having examined the direct charging regime proposed in the AISG's discussion paper, the Committee remains firm in its belief that in formulating a direct charging regime, safeguards need to be built into the system to ensure that consumers living in regional, rural and remote Australia benefit from the reforms. In particular, the Committee does not believe that there is a case for fees to rise in country Australia. It therefore restates the recommendation made in the main report.

Recommendation 1

The Committee recommends that the ATM Industry Steering Group include in its considerations on the reform of ATM interchange fee arrangements the special circumstances of fees and charges associated with the use of foreign ATMs in rural, regional and remote Australia. The focus of the group would be on building into any proposed reform of the ATM fee structure, safeguards that would ensure that people living in country towns and remote communities do not incur significantly higher fees or charges for using a foreign ATM and that an unreasonable or unwarranted differential in fees and charges between those in rural and remote areas and those in metropolitan areas does not develop.

---

63 Reserve Bank of Australia, 'Paying for Using a "foreign" ATM', tabled during public hearing, 5 November 2003.

2.63 The Committee also notes the findings of the RBA and ACCC joint study which showed that the fees charged for obtaining an account balance through an ATM is a substantial mark-up over the costs where the average interchange fee for a balance enquiry was $0.74. This fee is twice the average cost. In its main report the Committee dealt with fees incurred for inquiries on account statements from the position of a safety net account. The Committee recommended that ADIs make available to their customers, who are concessional card holders and low income earners, a safety net basic bank account which includes measures such as no fees for obtaining account balances.

2.64 In light of the proposed changes to a direct charging regime, the Committee would like to see measures in place that would guarantee that people in rural, regional and remote Australia do not incur charges for obtaining an account statement through an ATM that are significantly higher than the costs for supplying that service.

Recommendation 2

The Committee recommends that the AISG when considering reforms to the ATM fee structure give full consideration to ensuring that the price of obtaining an account balance is kept to a minimum and at the very least is in alignment with the costs associated with delivering the service.

2.65 The Committee draws attention to its findings in this report on real time disclosure of ATM fees and charges[64] which reinforced recommendations made in the report by the Joint Statutory Committee on Corporations and Securities on Fees on Electronic and Telephone Banking and by the Labor members of that Committee. Their recommendations, made in February 2001, sought the introduction of a real-time disclosure regime for ATMs in no more than two years. The Committee is concerned with the time taken to implement this recommendation.[65]

Recommendation 3

The Committee recommends that, irrespective of progress on the introduction of a direct charging regime, the AISG develop a framework for real-time disclosure of ATM fees and charges to be implemented as soon as practicable. The framework is to ensure that information on the cost of a transaction is made available so that a customer can cancel the transaction before incurring any fee.

The Committee explained that it had not given close attention to overseas regimes mainly because of differences in the overseas models from the one proposed for Australia and the difficulty in translating overseas experiences to Australia's particular circumstances. It noted, however, the importance of giving close attention to recent

---

64 See paragraph 2.36.

65 Parliamentary Joint Statutory Committee on Corporations and Securities, *Report on Fees on Electronic and Telephone Banking,* February 2001, p. 37 and p. 19 of the Labor Members Report.

developments in Australia's banking industry when considering reforms. The Committee goes further in recommending that if a direct charging regime is introduced, a system for monitoring fees and charges should be in place.

Recommendation 4

The Committee recommends that should a direct charging regime be introduced both the RBA and the ACCC closely monitor shifts in fees and charges for foreign ATM services and report publicly on developments in fees charged.

The Committee recommends further that should a direct charging regime be introduced the RBA produce statistics to show the fees for ATM services in rural, regional and remote Australia and the fees in metropolitan areas. In addition, the Committee recommends that the statistics include as a separate category fees charged for obtaining an account statement.

Conclusion

2.66 Before concluding the discussion on ATMs, the Committee takes the opportunity to emphasise the importance of placing ATMs and other forms of self-service banking in the broader context of banking and financial services in regional, rural and remote Australia. The focus on the delivery of the more elementary aspects of banking should not ignore the much broader issue of the provision of advice and assistance across a range of financial services. According to many witnesses to the broader inquiry, modern technology has not compensated for the loss of face-to-face banking. They argued that while communities in rural, regional and remote Australia may have access to transaction services, many do not have access to comprehensive financial services.

The main report took cognizance of this view and highlighted the importance of addressing all aspects of banking and financial services not just basic banking transactions. While the Committee fully endorses greater access to ATM terminals in rural, regional and remote Australia, it would not like to see such an expansion undermine the overall level and quality of the provision of banking and financial services in country Australia. Access to an ATM is intended to enhance not diminish a customer's relationship with their bank. Thus, any move to change the ATM fee structure should take account not only of potential fee increases but also whether financial institutions will place a growing reliance on ATMs to deliver banking services at the cost of services they would normally have provided face to face.

SENATOR GRANT CHAPMAN
CHAIRMAN