

ADDITIONAL COMMENTS BY LABOR MEMBERS

FOREIGN ATM FEES AND CHARGES

1.1 There is no doubt that Australian consumers are paying too much in foreign ATM fees. On average, the major banks have increased these fees by 250 per cent since 1995. Foreign ATM fees average \$1.35 but can be as high as \$2.00.

1.2 The RBA and ACCC noted in their 'Study of Interchange Fees and Access' in October 2000, that interchange fees on ATMs, that is payments from card issuers to ATM operators, average \$1.03. This represents a mark up of more than 100 per cent on the average cost to financial institutions of delivering such services of \$0.49.

1.3 The question for the community is whether the direct charging model proposed by the ATM Industry Steering Group (AISG) will deliver improved outcomes for consumers.

1.4 Under the proposal, the ATM interchange fee would be abolished; instead ATM owners would be permitted to charge a fee directly to cardholders. The card issuing institution would also be able to charge the customer a fee for the transaction.

1.5 Direct charging of ATM fees allows ATM owners to charge a different fee for each individual ATM based on their different costs.

1.6 The Committee received evidence that an ATM in a rural or remote area would typically have fewer transactions per day and higher telecommunications, cash handling and maintenance costs compared to an ATM located in a capital city.

1.7 It is therefore inherent in the AISG model that ATM operators in rural and remote areas should be able to charge more than in metropolitan areas.

1.8 Labor members do not believe that this would be an acceptable outcome of 'reform' and oppose any move towards direct charging that would result in the opening up of a differential in foreign ATM fees between metropolitan and rural and regional Australia.

1.9 As the majority report notes, there is an 'increasing reliance on ATMs as a primary means to access cash and obtain an account balance'.¹ This is especially the case in regional and remote Australia where there are fewer banking alternatives.

1 Paragraph 1.4.

1.10 The ability to access cash in a transaction or savings account is an essential service. Labor members do not believe that any differential in the price of access between city and country is justified.

Competition will not restrain ATM fees: Regulatory intervention is required

1.11 The proponents of the direct charging model argue that competitive forces would ensure that ATM fees would not be excessive.

1.12 Labor members are deeply skeptical of this argument. As the majority report notes the evidence presented to the Committee indicates that ‘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’.² Labor members believe that the lack of competition in rural areas may lead to a sharp rise in ATM fees under the direct charging model.

1.13 While the majority report expresses these same concerns, in the view of Labor members, recommendation 1 does not ensure that the fundamental flaws in the AISG model are dealt with.

1.14 The majority report calls for ‘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’.

1.15 Labor members believe that this recommendation does not go far enough. In Labor’s view no differential in foreign ATM fees between different locations is reasonable or warranted. This qualification gives the ATM industry too much discretion to ramp up fees in rural regional areas.

Labor’s approach to ATM reform

1.16 For sometime Labor has set out a number of principles against which ATM reform must be assessed. Labor members believe that any reform to ATM arrangements must:

- reduce the overall cost of banking to customers;
- ensure that customers in regional areas are not slugged with higher fees than charged in the major cities;
- prevent institutions with large ATM networks from using their market power to impose higher charges on customers of smaller institutions.

2 Paragraph 2.52.

Labor members do not believe that the AISG proposal, as currently articulated, compares favorably with these criteria.

Banking Costs

1.17 There is no guarantee that direct charging will reduce the overall cost of banking.

1.18 The proposal involves the unbundling of the current ATM fee. The ATM owner will be able to charge for the transaction but the cardholder's institution will also be able to charge a separate transaction fee.

1.19 Therefore two fees will replace the current foreign ATM fee. In evidence to the Committee, the Australian Consumers Association expressed concerns about the impact of unbundling on fees paid by consumers:

there will be two fees a person will pay every time they use a foreign ATM and the great capacity going forward for both those fees to rise in the future, leading to future higher costs for foreign ATM access. Where there have been any assurances provided or any expectations cited that fees will come down in the future, these appear to be informal assurances provided to the regulator rather than anything inherent in the operation of this model. That, to us, is no assurance at all.³

Fee Differentials

1.20 It is implicit in the model and acknowledged by its proponents that higher ATM fees will occur in high cost locations. Labor members believe that as a matter of social justice, it is unacceptable to impose an additional burden to access cash on rural and regional customers.

1.21 The argument that each machine should pay its own way is based on a misunderstanding of the economics of banking in rural communities. These changes must be seen in context of the fact that rural and regional consumers have already borne the brunt of branch closures. In the last decade more than 750 branches have closed in non-metropolitan areas.

1.22 Chris Connolly of the Financial Services Consumer Policy Centre made this point strongly in evidence before the Committee:

the economics of individual ATMs are not a good starting point for reforms for regional consumers because the Reserve Bank proposal is that each stand-alone ATM will make a profit and not a loss. Of course, that ignores the long history, of which this committee will be aware, of the transformation of banking services in regional areas. In fact, the real economics of ATMs is that, by putting in an ATM, banks have saved a lot of money because they have closed branches or reduced the amount of staff

3 Ms Catherine Wolthuizen, *Committee Hansard*, 5 November 2003, p. 614.

in branches. The economic benefits of an ATM for a bank come from cost savings in staff and real property and not from that individual ATM making money on every transaction. So for that pure economics theory to work, you are ignoring the entire history that this committee's work has been focused on recently.⁴

Competitive Impact

1.23 Labor members are concerned that the AISG proposal may have a negative impact on the competitive position of smaller institutions. In the US there is evidence that some banks with an ATM network that is dominant in a particular area have raised their foreign charges in order to encourage customers of institutions with a smaller network to switch to avoid the charge. Labor members believe that such pricing would threaten competition retail banking. Any proposed reforms must ensure that customers and smaller institutions are not targeted in such a way.

Future Options

1.24 Labor members acknowledge that ACCC authorisation is required for the AISG direct charging regime to come into effect as it is contingent on the industry agreeing to reduce the current interchange fee to zero.

1.25 Labor members trust that the ACCC will give rigorous scrutiny to any direct charging proposal to ensure that it does yield a net public benefit. Consumer groups have indicated that they will continue to urge the AISG to include a prohibition against differential pricing in the authorisation proposal and for the ACCC to have a role in monitoring the impact of direct charging. Labor members support both of these proposals.

1.26 However in the event that the proposal is authorised by the ACCC without appropriate safeguards, Labor members believe that it is incumbent on Government to intervene in the interests of rural and regional consumers. In such a situation a community service obligation should be imposed on ATM operators to impose a uniform fee throughout Australia.

1.27 The decision of the majority of the Committee to allow price differentiation between metropolitan and regional and remote Australia seems to be based on the proposition that ATM owners must be allowed to charge exorbitant amounts in order to ensure that services are rolled out into localities with few or no ATMs. Labor members do not accept this trade off.

1.28 If the banks are unwilling to accept that they have an obligation to ensure that customers are able to access their cash in transaction accounts, the Government should address the issue through community service obligations imposed under a social charter.

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

Fee Disclosure

1.29 It is now nearly three years since the Labor members of the Joint Standing Committee on Corporations called for the banks to introduce real time disclosure for ATMs.

1.30 The banks have repeatedly cited technological constraints as an obstacle to delivering this outcome. Labor members note however that these constraints do not seem to stop the banks from making changes to allow ATMs to sell more products to consumers.

1.31 Recent reports suggest that new software is being rolled out to ATMs to allow them to be linked to bank databases on customers' income and spending habits. This technology won't be used just to promote the bank's own products but will also be used to advertise on behalf of others.⁵

1.32 Labor believes that disclosure is fundamental to driving down the cost of foreign ATM fees. As the Committee noted in 2001, US research shows that when customers are advised of foreign ATM fees before a transaction 25 percent of customers cancelled the transaction and sought out their own bank's ATM.

1.33 Real time disclosure of ATM charges is already compulsory in the United Kingdom and Canada and will soon be required in the United States.

1.34 Labor members do not believe that disclosure should be conditional on the banks getting their way on the proposed direct charging model. If the banks refuse to implement real time disclosure voluntarily, a legislative response is required.

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5 Sue Lowe, 'Now, the ATM that takes your cash back', *Sydney Morning Herald*, 20 December 2003.

