ATM Industry Reference Group

Submission to the Senate Economics Committee

Inquiry into Competition within the Australian Banking Sector

30th November 2010

Department of the Senate
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Parliament House
Canberra, ACT 2600

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Dear Secretary,

Thank you for the opportunity to make a submission to the Senate's inquiry into Competition within the Australian banking sector. This submission focuses on the section of the inquiry dealing with ATM withdrawal fees and seeks to provide important information to committee members to assist in their deliberations.

The ATM Industry Reference Group (AIRG) was established in early 2008 to provide an industry voice for the independent ATM sector. Three organisations are involved, representing close to 50 per cent of all ATMs currently operating across Australia and more than 90 per cent of all independently owned and operated ATMs.

The members are:

- Customers Limited
- First Data International (Cashcard Australia Ltd)
- The BANKTECH Group Pty Ltd

It is the view of the ATM Industry Reference Group that any externally imposed control on the level of the current free market of ATM direct charges, even if this only related to one sector of the industry, could artificially distort the level of competition in the setting of ATM direct charges with potential unintended consequences that could ultimately lead to a lower level of ATM service across the nation.

This paper will focus on three key areas:

1. The role of ATMs;
2. Banking Amendment Bill 2010 – and the position of independent ATM operators; and
3. Reduction or abolishment of ATM fees – the potential 'unintended' consequences of the proposed legislation

We would like to draw the Committee's attention to section 3 and the unintended consequences of the proposed legislation. We believe that there are potential impacts of the proposed legislation which may not have been fully considered. Importantly, we feel some of these impacts may in fact reduce the level of competitiveness in the industry and, more critically, actually reduce consumer choice and affect the provision of ATM services in regional and rural areas of Australia.

Overall, we believe that the reforms introduced in 2009 by the Reserve Bank of Australia, which aimed to make fees transparent, improve consumer choice and increase competition and the supply of ATMs in Australia, have been successful.

Background

The ATM networks in Australia comprise two quite disparate business models; (1) the financial institution ATM networks and (2) the independent ATM deployer networks.

The financial Institution ATM networks primary focus is to provide access to transaction services to their own customer base (referred to as “on us transactions”), with the provision of cash withdrawal services to other financial institution cardholders (referred to as “foreign” transactions”) as a secondary function.

Financial institutions operate on both sides of the ATM business, i.e. as card issuers and as ATM deployers. Institutions provide their customers with access to their own ATMs on a “fee free” basis and the availability of access to fee free ATMs is an important competitive factor in the retail banking market.

On the other hand, independent ATM deployers operate only as deployers of ATMs and not as card issuers. Therefore, unless an arrangement with a financial institution is in place whereby its cardholders can access an independent ATM without charge to the cardholder, transactions processed through independent ATM networks are “foreign transactions”. The independent deployer networks are primarily located in convenience locations such as service stations, supermarkets, convenience stores, clubs and hotels.

The role of ATMs

ATMs fulfil a vital role in providing cash access for cardholders across Australia. The cash withdrawn from ATMs is subsequently used for the payment of a wide range of services and supply of goods in businesses throughout Australian communities, but particularly for low value retail transactions.

The Reserve Bank of Australia estimates that cash is used in approximately 70% of low value retail transactions. Accordingly, the provision and ready access to ATMs, both in metropolitan and regional Australia, is vital to the sustainability of many businesses and for the daily needs of consumers.

The placement and operation of independently-deployed ATMs (in contrast to those operated directly by financial institutions) relies primarily on revenues generated by ATM ‘direct charging’ which was introduced in March 2009. The sustainability of such networks would be compromised without the ability to charge cardholders an appropriate fee for service (direct charge).

There are currently in excess of 14,000 independently-operated ATMs deployed across Australia today, with a significant proportion located in regional Australia and in locations where alternate safe access to cash may be limited.

In providing such services, the total costs for deploying ATMs can vary significantly between locations and extend beyond the notional cost of processing transactions. These costs include:

- ATM hardware, installation and maintenance
- Compliance and security requirements
- Ongoing software upgrades
- Cash deliveries, armed guards and cash management
- Site rental costs to ensure ATMs are located in safe and convenient locations for consumers

Banking Amendment (Delivering Essential Financial Services) Bill 2010

We note that the Banking Amendment (Delivering Essential Financial Services) Bill 2010 proposes to prohibit banks from charging their own customers for ATM transactions and to cap the charge for using another bank's ATMs at an arbitrary level sufficient to cover the pre-determined cost to the bank of the transaction.

Potential Direct Impact on Independent ATM Deployers

It is our understanding that the Bill, as proposed, does not extend to the services provided by independent operators such as the members of our group. Such rationale is based on the fact that a capping of fees for independent deployer networks sufficient only to cover the cost of service would have the following impacts on such networks, resulting in:

- Reduced ATM numbers, meaning reduced points of cash access for all Australians
- A reduction in the ability of operators to invest in technology and introduce innovative new technology and services for the benefit of cardholders
- Reduced competition within the ATM market as the number of ATM terminals provided by independent deployers would diminish
- Reduced competition within the independent ATM sector as potential new entrants would have little incentive to enter the payments industry as the ability to re-coup costs and earn a return on investment would be stalled
- Potentially reduce the ability of some operators to meet new and sophisticated compliance requirements which serve to protect the interests of cardholders, financial institutions and operators
- Impact the operations of many small to medium businesses, particularly in the retail, convenience and hospitality sectors which rely heavily on independent ATM facilities to provide cash to their customers whilst serving as a secure means to store their on-site cash requirements
- Reduced access to safe, convenient and secure access points for cash in Australia (the majority of independent ATMs are located within premises where are generally considered to be safer locations to access cash as compared with bank ATMs in high-street locations outside of premises)

Potential 'Unintended' Consequences of the Proposed Legislation

We believe that there are additional potential impacts of the proposed legislation which may not have been fully considered, these include:

- Any move to regulate direct charge fees at "bank" ATMs would negatively impact cardholder perception of value of the service compared with direct charge service fees facilitated by independent operators, and potentially result in decreased usage of our networks. This could in turn cause a reduction in network size and in all likelihood produce an increase in direct charge fees, particularly in regional and rural areas where the costs of service provision are materially higher – a negative spiral.
  It could also mean that the potential to deploy ATMs in some new sites/locations would be limited, therefore impinging on the viability of some smaller businesses where the access to cash is vital

- In our view if fees for the use of "foreign" ATMs were capped, and banks were not allowed to reinstate interchange fees, it is conceivable that banks would be forced to limit the use of their ATMs to their own customer bases, creating significant consumer disadvantage and under-mining the current exercise of choice by consumers to use foreign ATMs for reasons of convenience. This outcome would significantly impact on competition within the retail bank market.

- A number of second-tier and smaller banks utilise the services of independent ATM deployers to cost-effectively increase their ATM footprint and therefore their retail bank service offerings to customers. ATM access points are often a significant consideration for customers in deciding which bank or financial institution to join or switch to. ATM access points play a role in ensuring that an appropriate level of competitive tension exists in the banking industry, and importantly enable smaller institutions to better compete against larger institutions.

Should independent ATM networks reduce in size or should the proposed legislation limit the ability of these institutions to utilise independent ATM deployers, it would diminish second-tier and smaller banks ability to provide competitive levels of ATM access points. This in-turn would reduce the level of competition provided by second-tier banks which exists today, and further limit the likelihood of new entrants into the Australian banking industry.

In summary, we believe the current charging structure for ATM services has created a competitive environment for the provision of ATM services which, in turn, has increased transparency for cardholders, driven down aggregate fees paid for accessing cash through ATMs and ultimately increased the number of cash access points for cardholders.

This position is consistent with the Reserve Bank of Australia's (RBA) study into direct charging entitled *Reform of the ATM System – One Year On*, in the *RBA Bulletin: June Quarter 2010.* The RBA has shown that cardholders are saving around $120 million per annum in ATM fees since the introduction of direct charging in March 2009, while choice and transparency has been increased.

Furthermore, the new charging regime has encouraged ATM networks to expand, including into remote areas that previously would not have been viable as ATM sites, increasing cardholders' access to cash.

The RBA's review of the ATM system

The RBA recently concluded an in-depth study of the direct charging system entitled *Reform of the ATM System – One Year On*. Direct charging was introduced in March 2009 to increase transparency in the fees charged to cardholders for using ATMs not belonging to their own financial institution. This review found that:

- ATM fees are now more transparent
- This has resulted in a change of cardholder behaviour, with a move towards more 'own bank' transactions
- This has led to an overall reduction in the total amount of ATM fees paid in Australia
- The new system has encouraged an increase in the supply of ATMs
- ATMs are now available in locations and circumstances that previously would not have been possible

The experience in the UK, where up-front fees at bank operated ATMs were removed, the competitiveness of the independent ATM deployers was reduced with a corresponding drop in transaction numbers with only 6% of total ATM transactions now processed through the independent networks. In recent times ATM numbers have further reduced in the independent sector by more than 3,000 devices resulting in less cash access points for consumers. As a result, we believe the current Australian system of charging for ATMs provides cardholders with more transparency and increased access to cash, while encouraging the further growth of ATM networks.

We do not believe changing this system would offer cardholders aggregate benefits and may lead to a significant decrease in the number and geographical spread of ATMs, ultimately decreasing cash access points.

Yours sincerely,

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