

QW21: In relation to Automatic Teller Machines (ATMs):

- a) Can you explain the cost base of your ATM network?
- b) What is the per-transaction cost of your ATM network?
- c) What is the marginal cost of a transaction from a customer of a different bank using one of your ATMs?
- d) Have these marginal costs or the fixed cost of your ATM network changed over the past five years? If so, how?

Answer: In March 2009, the RBA abolished interchange fees for ATMs, which were previously negotiated bilaterally between banks, and this resulted in the introduction of direct charging. This significantly increased transparency for consumers who could now see the cost at the time of a transaction.

The Westpac Group ATM direct charge fees have remained at the same level – \$2 for withdrawals and balance enquiries – since the introduction of direct charging.

The fee is only applied to customers who choose to access cash from our network with a card not linked to an account with any of the Westpac Group brands. ATM transactions are free for our own customers.

The cost per transaction across our network is approximately \$1 (based on withdrawals and deposit transaction).

We have invested heavily in our network for the benefit of our customers and provide access to

other banks' customers as a service. The fee reflects this.

The cost base of our ATM network (~3000 ATMs) is approximately \$115 million per annum. This consists of:

- ATM operating expenses. This includes cash handling costs and general operating costs
- Technology expenses;
- Branch ATM costs, including depreciation costs (but not rent);
- Offsite ATM costs, including costs for rent, fit out and depreciation; and
- Other costs, including project costs relating to ATM improvements, and other general expenses.

In Westpac's 2015 financial year, the operating income for our ATM network was \$51 million.

As a result, our ATM network has a shortfall in its net operating position of more than \$60 million. Across the Westpac Group's around 3,000 ATMs, this effectively represents a net loss per machine of more than \$20,000.

Importantly, ATM transactions are declining. This is being driven by changes in customers' payment behaviours, with alternative channels, for example, tap and go and EFTPOS cash out transactions providing alternative convenient payment methods. From 2014 to 2015, transaction volumes through our network declined 4.1 per cent and we expect this will accelerate as the take up of alternatives increases. The combination of largely fixed costs associated with running the network and lower usage has resulted in ongoing increases in the cost per transaction.