Australian Payments
Clearing Association

SUBMISSION TO THE RBA-TREASURY ATM TASKFORCE

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About this document

This is a submission of the Australian Payments Clearing Association to the RBA-Treasury ATM Taskforce inquiry into the implementation of ATM reforms introduced in March 2009.

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1. The Inquiry

The Australian Payments Clearing Association Limited (APCA) welcomes the opportunity to make this submission to the RBA-Treasury ATM Taskforce ("the Taskforce").

The Taskforce will report to the Treasurer by June 2011 on the implementation of ATM direct charging reforms introduced in March 2009. The report will consider the impact of the reforms on:

- The transparency and level of ATM fees;
- Consumer behaviour;
- Competition in the ATM market; and
- The deployment of ATMs.

The Taskforce has requested APCA provide its initial views on these issues by Friday, 15 April 2011. APCA looks forward to further discussions with the Taskforce as its work progresses.

2. APCA's Role

APCA was the coordinator of the industry's implementation of ATM direct charging and undertook a public education campaign in the lead up to direct charging. APCA worked with a wide range of key industry stakeholders to provide coordination of the significant industry efforts involved in the implementation of direct charging.

APCA also has also a key role in Australia's ATM system through management of the Consumer Electronic Clearing System (CECS).

3. The transparency and level of ATM fees

The ATM direct charging reforms were designed to ensure transparency in ATM charges. Removal of the interchange fees paid between ATM issuers and acquirers and the move to direct charging would enable users of ATMs to know how much they were actually paying to use a "foreign" ATM. Similarly, the decision by most financial institutions in Australia to not charge their account-holders a "foreign fee" has further enhanced the "real-time transparency" of ATM-related charges paid by consumers.

Though there has been some commentary that the $2.00 direct charge dominates, there is a reasonable amount of variability for direct charging. A number of independent deployers have chosen to charge higher amounts for withdrawals, for example $2.20 or $2.50. Alternatively, some financial institutions have chosen to charge less, including one major financial institution which charges $1.50 for withdrawals and 50 cents for balance inquiries. Recently released RBA research notes that three-quarters of ATM transactions are not

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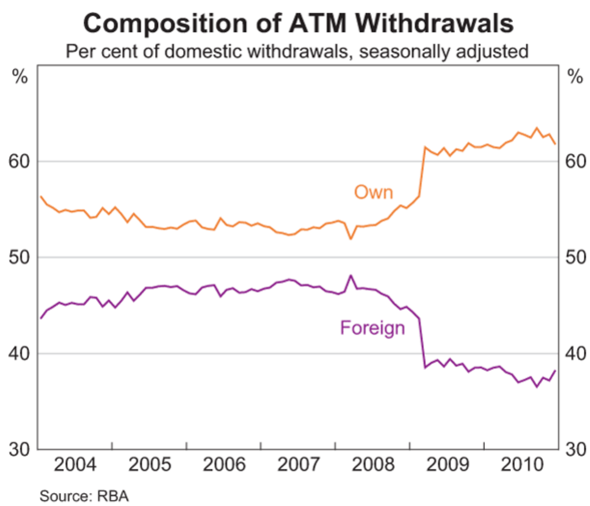
subject to the direct charge.[1] Further, concerns expressed over the specific level of fees charged by individual ATM providers must be put in the context of consumer savings of an estimated $120 million in ATM fees in the first year of the regime.[2]

4. Consumer behaviour

A significant reason for these savings has been a result of customers changing their behaviour, in response to more transparent pricing. When the ATM reforms came into place in March 2009, there was an immediate and dramatic shift in customer behaviour away from “foreign” and towards “own” ATM withdrawals (see below). Similarly there was an increase in EFTPOS cash-outs.[3] Over 60 per cent of ATM withdrawals continue to be from “own ATMs”, demonstrating consumer behaviours have remained resilient.



The observed change in consumer behaviour suggests that Australian consumers are keenly aware of direct charging and able to modify their behaviour accordingly. These developments should read alongside recent research that suggest consumers who paid direct charging do so knowingly for convenience reasons.[4] These findings suggest that arguments that consumers are somehow under-informed about direct charging appear ill-founded. Further, policy responses to address any such “information gap”, such as additional on-screen notifications and/or additional external signage, would therefore appear to be questionable benefit.[5]

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[1] Flood, D., Hancock, J. and Smith, K (2011) “The ATM Reforms – New Evidence from Survey and Market Data”, *RBA Bulletin March 2011,* p.44

[2] Ibid, p. 43.

[3] Ibid, p.44 Also APCA (2010) ‘ATM direct charging – Trends one year on ” *Payments Monitor*, First Quarter 2010, available at http://www.apca.com.au/PM/2010 Quarter1/5.html

[4] Flood et al (20110, p.46.

[5] Fear, J (2011) *The price of disloyalty: why competition has failed to lower ATM fees.* The Australia Insitute and CHOICE, Policy Brief No. 23, February 2011. p.4.

5. Competition in the ATM market

The Australian ATM market appears to be highly competitive. About half of the machines in Australia are operated by organisations that are independent of the major financial institutions. The two largest ATM deployers in Australia (Customers ATM and Cashcard) are independent and each have about 20% of machines in Australia. Between them, the four major financial institutions have about 40% of the ATMs deployed in Australia. This stands in sharp contrast to the situation found when the RBA / ACCC 2000 Joint Study was undertaken and the four major financial institutions had approximately 65% of ATMs.[6]

Direct charging lowers barriers to entry by providing independent deployers with a revenue stream direct from cardholders rather than one reliant on negotiating interchange fee arrangements. Indeed, the largest deployer of ATMs in Australia, Customers ATM, entered the ATM market in 2003. [7]

Direct charging has also opened up new forms of competition, including the rise of fee-free networks and a number of financial institutions providing offerings where they rebate much of the cost of the direct charge to their account-holders.[8] The emergence of fee-free networks has been notable with "the largest 30 financial institutions in terms of ATM usage, 28 institutions (covering 98 per cent of all ATM cardholders) … providing access to a network of at least 1500 ATMs charge free or at reduced charges to their cardholders"[9].

6. The deployment of ATMs

Past overseas experience strongly suggests that the introduction of a direct charging regime results in a rise in ATM numbers. [10] Australia appears to have followed this trend. The number of ATMs in Australia has risen from 25,658 in June 2008 prior to the introduction of the reforms to 28,764 by June 2010. [11]

Recent RBA research also indicates that the dispersion of ATM growth has been evenly distributed between metropolitan, non-metropolitan and remote regions, allaying concerns that growth would be concentrated in already well-serviced metropolitan locales.[12]

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[6] RBA/ACCC (2000) *Debit and Credit Card Schemes in Australia: A Study of Interchange Fees and Access*, October 2000, p. 13.

[7] http://www.customersatm.com.au/about-us/history/ . Accessed 14 April 2011.

[8] Filipovski, B. and Flood, D. (2010) "Reform of the ATM System – One Year on", *RBA Bulletin June 2010*, p. 37.

[9] Ibid., p.42

[10] McAndrews, J. (2003) "Automated Teller Machine Network Pricing – A Review of the Literature", *Review of Network Economics*, Vol 2. No. 2, pp. 146-158.

[11] APCA statistics. Available at www.apca.com.au.

[12] Flood et al (2011), p. 48.

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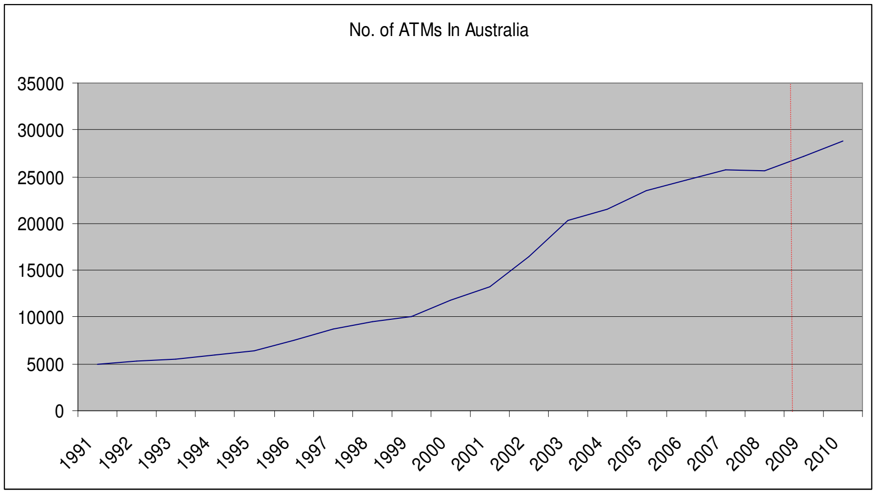

Source: APCA

7. Conclusion

The implementation of ATM direct charging was a significant undertaking for the industry. APCA, in its role as coordinator of the industry's implementation, keenly recognises the challenges involved in undertaking these type of systemic changes.

The objectives of the ATM reforms were to improve price transparency, promote competition and increase ATMs deployed in a wider variety of locations. Over the past two years, the reforms appear to have broadly achieved these objectives. Evidence of this includes:

- dramatic and resilient shifts in consumer behaviour in response to the new price signals;
- consumer savings of an estimated $120 million in ATM fees in the first year of the regime;
- the rise of the independent ATM deployer sector plus new competitive offerings such as fee-rebated accounts and wider fee-free networks; and
- ATMs having increased from 25,658 to 28,764, or 12.1%, since the reforms.

Many Australian consumers have modified their behaviour in response to the new regime and, in the main, the changes appear to have been positive for the majority of Australian consumers.