

# **ATM Taskforce – Report on Transparency and Competition**

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**Australian Government**  
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**RESERVE BANK**  
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## ATM Taskforce – Report on Transparency and Competition

### I. Key Findings

1. The taskforce reviewed the impact of the March 2009 reforms on the Australian ATM market and considered the structure of the ATM market. The taskforce examined the need for further action to enhance transparency and competition.
2. Australia has over 30 deployers of ATMs, which currently provide around 29 500 ATMs around the country, placing Australia fifth internationally in terms of ATMs per capita. Around half of these ATMs are part of networks operated by authorised deposit-taking institutions (ADIs), which provide account holders fee-free access to the network to which their ADI belongs. With the exception of residents of very remote Indigenous communities, most Australian cardholders have access to a fee-free network of at least 1 800 ATMs.
3. The other half of Australia’s ATM fleet is provided by independent deployers, a number of which have fleets that are as large as, if not larger than, those of the ADIs.
4. The reforms of March 2009 altered the way that ATM transactions are priced by: eliminating interchange fees (payments between card issuers and ATM owners); allowing ATM owners to levy a direct charge; and increasing the transparency of fees for cardholders. The reforms made it easier for customers to understand the costs of withdrawing cash and making balance enquiries at ‘foreign’ ATMs (that is, those which are not part of their own ADI’s network).
5. In response to more transparent ATM fees, consumers have changed their behaviour, saving an estimated \$120 million on cash withdrawal fees in the year after the reforms and a further \$150 million the following year. This saving largely reflects cardholders shifting away from transactions at foreign ATMs to transactions at their own ATM networks. Today, the vast majority of ATM transactions in Australia do not incur a direct charge – around 70 per cent of ATM withdrawals are fee-free. Cardholders are also making increased use of free alternatives to ATMs (including telephone and internet banking as well as accessing cash provided by merchants through eftpos transactions).
6. At the same time, consumers are able to access foreign ATMs in a range of convenient locations by paying a direct charge to ATM owners. While prices of foreign transactions at some ATMs have risen since the reforms, others have fallen. Overall though, the average fee actually paid by consumers making foreign-ATM cash withdrawals has remained stable at about \$2.00, which was the norm prior to the 2009 reforms. This price compares well by international standards.
7. Also, the move to direct charging has made it easier for independent deployers to participate in the ATM market and to provide ATMs in higher-cost locations. Since 2009, the number of ATMs has increased by around 2 500, at a faster pace than over the preceding years. Growth has occurred in metropolitan and non-metropolitan areas; the latter currently accounts for about 42 per cent of all ATMs.
8. Independent ATM deployers tend to locate their machines in ‘convenience’ locations such as stores, petrol stations and licensed venues – which tend to have high site costs – and impose higher direct charges than ATMs operated by ADIs. However, ADI-operated ATMs still account for most transactions in Australia, including foreign transactions: independent ATMs account for only 16 per cent of transactions. While there is some variation in direct charges among different providers, many deployers charge similar fees across their ATM fleets, regardless of the geographical location of

ATMs (for example, urban, rural or remote locations). Some do vary their charges across different types of premises (stores versus licensed venues, for example), but even these providers do not differentiate according to geographical location.

9. Independent deployers rely on direct-charge revenue and therefore compete with one another as well as with ATMs owned by ADIs. They must also compete with widely available substitutes for the services provided by ATMs. These include telephone- and internet-banking services provided by ADIs, cash provided by merchants through eftpos transactions (cash-outs), and payment by debit, credit and pre-paid cards. The accessibility of these alternatives means that for most Australians, payment of a direct charge to use a foreign ATM is generally a matter of convenience rather than necessity.

10. The exception to this is residents of very remote Indigenous communities. They lack access to free ATMs provided by ADIs and find it difficult to access free alternative banking channels. This means that they rely heavily on independent ATMs. Also, due to a range of socioeconomic and cultural factors, they tend to make much more frequent use of ATMs than other Australians. Hence, they spend a substantial sum on fees associated with frequent ATM use. These issues were the focus of the taskforce's February 2011 report to the Government. The taskforce is currently working with industry and other government agencies on measures to address these issues.

11. To further enhance transparency and competition in Australia's ATM industry, the taskforce recommends that consideration be given to requiring upfront disclosure of ATM direct charges (currently these are made clear only after a cardholder has progressed through a number of steps after inserting their card into an ATM). This could be done through external signage or through on-screen disclosure. Further consultation with industry will be needed to determine the exact form of any disclosure requirement and to minimise the costs of compliance where possible. Such an improvement to transparency has the potential to enhance price competition, at the margin, for foreign-ATM transactions.

12. To support this initiative, the taskforce also recommends that ATM deployers should regularly provide data on their pricing, activity and costs to the Reserve Bank for it to disseminate in an appropriate form. The Reserve Bank will need to consult further with industry to minimise the burden of providing these data.

## II. The Work of the Taskforce

13. As set out in its terms of reference (Attachment A), the taskforce was asked to report on the impact of the March 2009 ATM reforms and to make recommendations on the need for further measures to enhance competition and transparency.

14. Using a range of data sources, the taskforce considered the impact of the reforms on: the transparency and level of ATM fees; consumer behaviour; competition in the ATM market; and deployment of ATMs. The taskforce consulted with financial institutions, independent ATM owners and a number of industry and consumer representatives (see Attachment C for further details). It also reviewed relevant reports by industry and consumer groups.

15. The taskforce sought additional data from all ATM owners, building on a number of earlier collections the Bank has conducted to monitor the impact of direct charging.<sup>1</sup> Specifically, the taskforce collected data from ATM deployers on: the number, postcode, location type, and level of direct charges at each ATM they own; the volume of transactions, as well as the volume of foreign-ATM transactions for which the cardholder did not face a direct charge, at those ATMs; and a detailed breakdown of the costs and revenues across their ATM fleets.

16. The rest of the report is structured as follows. Section III provides some background, describing the current structure of the ATM market and the reasons for the reforms of early 2009. Section IV describes the effect of these reforms across a number of important dimensions. A summary of the feedback from consultations is provided in Section V. The taskforce's analysis of the current state of competition and the nature of remaining inefficiencies is contained in Section VI. Recommendations of the taskforce are provided in Section VII. The report concludes with a discussion of suggested next steps in Section VIII.

## III. Background

### Structure of the ATM Market

17. When financial institutions set up their ATM networks in the late 1970s, cardholders could use only the ATMs belonging to their own financial institution. From the mid 1980s, ATM owners began negotiating links between their networks, and by 2001 cardholders could make use of any ATM in the country. Around this time, the independent ATM networks – deployers that are not ADIs – began to emerge in a significant way. Also, 'sub-networks' were formed to effectively link together ATMs of a number of financial institutions, providing their customers with access to a larger network.

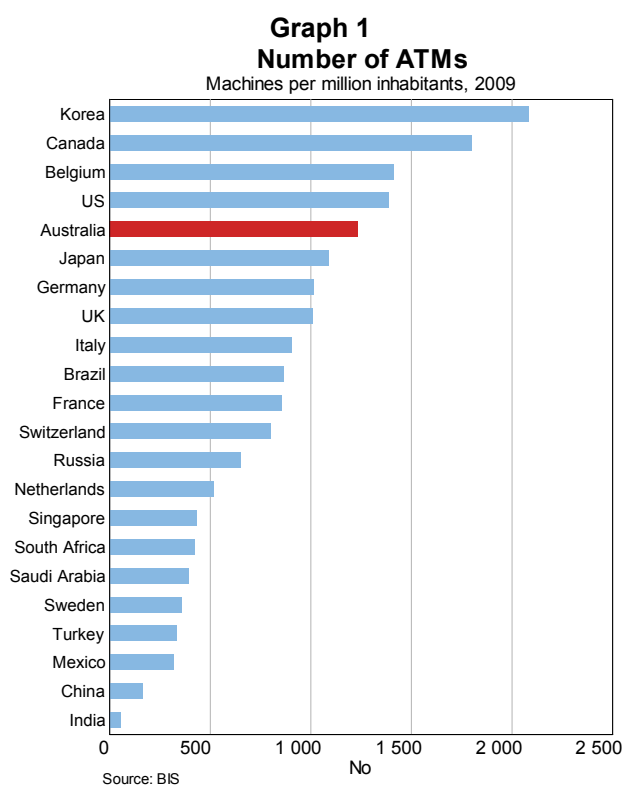
18. Around half of the ATMs in Australia belong to ATM networks owned by financial institutions, and most of the remaining ATMs are owned by a small number of large independent deployers. There are over 30 ATM deployers in Australia, ranging from those with only a few machines to networks of almost 6 000 ATMs. In total, Australians have access to around 29 500 ATMs, compared with 27 000 ATMs prior to the March 2009 ATM reforms.<sup>2</sup> The increase largely reflects a number of new independent ATM owners. As of 2009, Australia ranked fifth

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1 These include the 2010 Consumer Payments Use Study and a number of ad hoc data requests, the results of which have been reported in three RBA *Bulletin* articles (April 2009, June 2010 and March 2011) and in Bagnall, Chong and Smith (2011).

2 The December 2010 figure is from data provided to the Reserve Bank by ATM owners; the pre-reform figure is for December 2008 and from the Australian Payments Clearing Association (2011a).

internationally in terms of ATMs per person, with around 1 200 ATMs per million inhabitants (Graph 1).<sup>3</sup> Fees charged by machines in Australia are at the lower end of comparable fees charged in Canada, Germany, the United Kingdom and the United States (see Attachment B for further details).



19. There are two basic business models for ATMs in Australia – one suited to financial institutions and the other to independent deployers. Financial institutions compete for depositors by having large ATM networks that provide banking services, such as withdrawals and balance enquiries, at no direct cost to their own customers; any revenue generated from foreign-ATM transactions helps to cover some of the costs of their networks, but it is not the key consideration. Independent deployers, on the other hand, seek to generate fee revenue from all transactions on their ATMs, irrespective of the customer’s bank.

20. These two different business models have implications for where ATMs are located as well as the costs of deploying and running ATMs. Financial institutions tend to install and manage machines in their branches and some ‘high-street’ locations in order to best serve their own customers. They also deploy machines that typically provide a somewhat wider range of services than independent ATM deployers (such as accepting deposits). By contrast, independent deployers generally install machines in ‘convenience’ locations such as stores, petrol stations and licensed venues in order to attract cardholders of any financial institution to use their services. To secure such locations can require deployers to pay a substantial rent or ‘rebate’ to the site owner, often in the form of a revenue-sharing arrangement.<sup>4</sup> At the same time, independent machines are often provided under an

3 International comparisons require careful interpretation as factors such as the geographic distribution of the population and take-up of debit cards will affect the demand for ATMs. Australia’s relatively high level of ATMs per person may, in part, be attributed to its low population density and high take-up of debit cards.

4 According to Edgar, Dunn & Company (2010), over the year to June 2010, independent deployers that were surveyed paid 43 cents on average in site costs per transaction, compared with 16 cents on average for financial institution deployers. These costs include site rentals and transaction fees/rebates paid to merchants.

arrangement whereby the manager of the site is responsible for stocking machines with cash, insuring machines and even undertaking some simple maintenance. These machines tend to be smaller and simpler in a number of ways.

21. In line with this, the average cost of a *machine* tends to be higher for financial institutions than independent deployers. Financial institutions also spend more per machine for cash handling and storage, machine hardware and software, and maintenance. Data from Edgar, Dunn & Company (2010) suggest that the average monthly cost of a machine deployed by a large bank is over \$3 500, while it is around \$1 400 for a large independent owner. This difference partly reflects the variable costs associated with much higher transaction volumes at ADI-deployed ATMs – over 6 500 for larger banks per machine monthly, compared with 1 200 for independent ATMs – which implies that, per machine, ADIs face higher costs for things such as cash replenishment, processing transactions, paper for receipts and printer cartridges.

22. However, independent deployers face significantly higher costs *per transaction* (on average) than financial institutions. This is because the substantial fixed costs associated with installing and running an ATM are spread across fewer transactions.<sup>5</sup> Edgar, Dunn & Company (2010) estimates average costs per transaction at 54 cents for large banks, compared with \$1.12 for large independent deployers. Data from individual deployers suggest that while the range of costs around these averages is relatively tight for the large banks, it is much wider for independent deployers.

23. While their costs per transaction are typically lower, financial institutions also earn much less revenue per transaction on average than independent deployers. This is because the vast majority of transactions at ATMs of financial institutions (around 83 per cent) do not incur a direct charge, while almost all transactions at independent deployers' machines do. Hence, for financial institutions as a whole, revenue from direct charges does not cover the cost of providing their ATM networks despite attracting high transaction flows at their machines (Flood, Hancock and Smith 2011). Of course, they can make up for this shortfall through other sources of revenue, such as account keeping fees. Also, transactions at ATMs help to reduce the burden on financial institutions of providing face-to-face transactions in branches.

24. Direct charges vary across different types of ATM locations, reflecting, in part, the types of deployers typically associated with each location (Table 1). The average direct charge at independent ATMs is higher than at financial institution ATMs: \$2.15 for withdrawals and \$1.96 for balance enquiries at independent ATMs, compared with \$1.94 and \$1.68, respectively, at financial institution ATMs for users who are not members of that network. Direct charges tend to be higher in licensed venues than other locations, followed next by retail premises. At these locations it makes sense to have a limited number of ATMs (if not just one) to provide a convenient service to customers who are willing to pay to avoid having to go elsewhere to find an alternative. These 'convenience' machines are more likely to be deployed by an independent ATM owner, with a substantial portion of the direct charge revenue being shared with the owner of the premises. Indeed, around 80 per cent of ATMs in licensed venues and retail locations are provided by independent ATM owners.

25. On average, ATMs in the branches of financial institutions offer the lowest direct charge for foreign withdrawals while charges in shopping centres and on-street locations are also relatively low. Currently, the highest direct charge in any location is \$5.00 for cash withdrawals at a specialised venue (based on evidence provided to the Reserve Bank).

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<sup>5</sup> Fixed costs relate to such things as hardware, software, installation and communications infrastructure, as well as fixed site rental costs.

**Table 1: Direct Charges by Location Type**  
As at December 2010

	ATMs (Per cent)	Withdrawal		Balance enquiry	
		Average <sup>(b)</sup>	Maximum	Average <sup>(b)</sup>	Maximum
Retail premises	31.5	\$2.08	\$3.50	\$1.84	\$2.85
Licensed venue <sup>(a)</sup>	23.5	\$2.15	\$4.00	\$1.93	\$2.85
Branch	20.6	\$1.94	\$2.50	\$1.76	\$2.00
Shopping centre	15.1	\$1.96	\$2.50	\$1.73	\$2.00
Street	5.7	\$1.97	\$2.50	\$1.76	\$2.50
Other	3.6	\$2.04	\$5.00	\$1.69	\$2.50

(a) For example, pubs and clubs

(b) Averages are calculated across ATMs

Sources: RBA; ATM owners

26. There is also some variation in direct charges across cities, regional areas and remote areas (Table 2).<sup>6</sup> Direct charges on withdrawals are around 13 cents higher on average in very remote locations than in major cities. However, this is not so much because ATM owners apply higher direct charges in remote areas than in major cities. Rather, it tends to reflect the fact that a higher proportion of ATMs in very remote locations are provided by independent ATM owners, which have higher direct charges on average. Independent deployers are better suited to servicing locations where the cost of installing and maintaining ATMs is relatively high because they levy a direct charge on all of their transactions.

**Table 2: Direct Charges by Geographical Area<sup>(a)</sup>**  
As at December 2010

	Withdrawal		Balance enquiry	
	Average	Maximum	Average	Maximum
Major cities	\$2.03	\$5.00	\$1.80	\$2.85
Regional	\$2.06	\$4.00	\$1.85	\$2.85
Remote	\$2.09	\$2.85	\$1.91	\$2.85
Very remote	\$2.16	\$3.00	\$1.91	\$2.85

(a) ABS ASGC Remoteness Structure

Source: RBA

27. The ATM market is part of the broader market for accessing cash (and making payments more generally) and obtaining account balances. For instance, most consumers have access to cash through eftpos cash-outs and their own bank's branch network, and for the purpose of making a transaction cash can be supplanted by some form of card payment. Most consumers can obtain their account balances from sources such as telephone or internet banking (including via mobile phones), as well as through their own bank's branches. Also, customers of many financial institutions can conduct

6 The Australian Bureau of Statistics' (ABS) *Australian Standard Geographical Classification (ASGC) Remoteness Structure* identifies five remoteness area classes: major cities; inner regional; outer regional; remote; and very remote areas. Remoteness is based on a weighted proximity by road to five different sized urban centres with populations large enough to support a particular level of services. As of the 2006 census, just under 70 per cent of Australia's population lived in major cities, with a further 30 per cent in (inner and outer) regional areas (e.g. Launceston). The remaining population lived in the remote areas (including towns such as Alice Springs) and very remote areas.



banking business at Australia Post offices. All of these channels compete directly with ATMs and should be borne in mind when examining competition in the ATM market.

## The 2009 reforms

28. As mentioned above, the Australian ATM system currently comprises a number of separate ATM ‘networks’ that are linked together so that cardholders can withdraw cash from any ATM in Australia. This provides an important public benefit, providing cardholders with choice and convenience, as well as helping to promote competition between financial institutions. The linkages between ATM networks were created through bilateral agreements between network owners. Prior to the reforms of 2009, in return for providing access to their ATM networks, ATM owners were paid an ‘interchange fee’ by card issuers; \$1.00 was the norm. Generally, the card issuer recovered the interchange fee by charging the cardholder a ‘foreign fee’, which by early 2009 was typically \$2.00 per transaction (although some card issuers absorbed some or all of the interchange fee and other costs). Hence, most cardholders faced a \$2.00 charge, although they would only see this when they received their monthly or quarterly account statement.

29. In addition to a lack of transparency, there were two other problems with the system: a lack of competitive pressure on interchange fees; and difficulties for new providers to access the system.

30. A report by the Reserve Bank and the Australian Competition and Consumer Commission (2000) investigated ATM interchange fees as part of a study on debit and credit card schemes. ATM interchange fees were found not to have changed much, if at all, over time. The bilateral nature of interchange fee negotiation made it very difficult for existing ATM owners and card issuers to agree to any changes. The potential loser in any renegotiation had no incentive to move away from an existing agreement, so unless the potential beneficiary was prepared to walk away from the agreement – which was difficult once cardholders had become used to universal access – the interchange fee was likely to remain unchanged. Indeed, most of the changes that did occur were the result of mergers between financial institutions.

31. The inflexibility of interchange arrangements meant that the fees bore little relationship to the cost of providing an ATM withdrawal. As a result, it was uneconomic to deploy ATMs in areas where the costs were higher than the interchange fee, even if consumer demand for ATM services was high in those locations. There was also a risk that interchange fees would have remained unchanged even as costs rose, making more and more ATMs uneconomic. Independent ATM networks would have been particularly vulnerable since interchange fees were their main source of income, unlike financial institutions, which could choose to cross-subsidise their ATM services from other parts of their business. Hence, there was a real risk that the number of ATMs would have declined over time, making it less convenient for cardholders and even leading to the complete removal of ATMs from regions that are more remote or generate relatively little ‘traffic’.

32. A further limitation of this earlier system was that for foreign-ATM transactions, the cost that the cardholder faced (the foreign fee) was independent of the particular machine they visited. Therefore, there was no incentive for consumers to choose the ATM with the lowest interchange fee, nor for ATM owners to lower their interchange fees to attract more users.

33. Bilateral arrangements in the ATM system also made access difficult for prospective new providers of ATM services. First, any potential new provider wishing to be a direct participant in the system had to approach each existing participant separately to negotiate a bilateral connection. This was exacerbated by slight differences in business and technical requirements among participants.

Second, existing participants had little incentive to facilitate the connection of a potential competitor. Third, a new provider might be unable to negotiate an interchange fee – which was essentially a price of access – or only be able to negotiate one that would render its operations uncompetitive.

34. To address these concerns, the ATM industry developed a reform package for the ATM system, with support from the Reserve Bank.<sup>7</sup> The reforms were introduced in March 2009. The centrepiece of the package was ‘direct charging’, whereby ATM owners levy a fee directly on the ATM user rather than indirectly through interchange fees on the cardholder’s financial institution. Interchange fees were abolished, with some accommodation for financial institutions with smaller networks of their own to provide their cardholders with fee-free access to larger ATM networks. The reforms also included new rules that improved access to the ATM system for prospective new providers, including measures to facilitate timely access to the system and to cap the one-off costs of establishing the necessary connections.

35. Following the reforms, ATM owners are now required to make cardholders aware of the direct charge for a foreign-ATM transaction and allow them to cancel the transaction if they are not prepared to pay the fee.<sup>8</sup> This requirement is imposed through industry rules, which specify that this on-screen disclosure must be given as early as possible in the transaction sequence (APCA 2011b). If the cardholder elects to proceed with the foreign ATM transaction and requests a receipt, the rules also require that the direct charge be separately identified on that receipt. This is a significant improvement in transparency compared with the previous situation under which the fee for using a foreign ATM was disclosed only on the cardholder’s account statement, usually well after the transaction had taken place.

#### **IV. Effect of the 2009 Reforms**

36. The most noticeable effect of the move to more transparent pricing for foreign-ATM transactions was the shift in consumer behaviour away from foreign-ATM transactions. The fact that ATM owners now receive the direct charge has also changed the business case around ATM provision, leading to: increased availability of ATMs; the entry of new deployers into the market; and an expansion in networks providing their customers with fee-free transactions. At the same time, costs facing many ATM deployers – most notably site costs – have risen significantly, partly in response to the reforms. Finally, while there is now greater dispersion in the prices of foreign ATM transactions, the average price paid for cash withdrawals has been very stable, at around \$2.00.

#### **Shift in consumers’ behaviour**

37. Consumers overall are spending less on ATM fees. There are three elements to this:

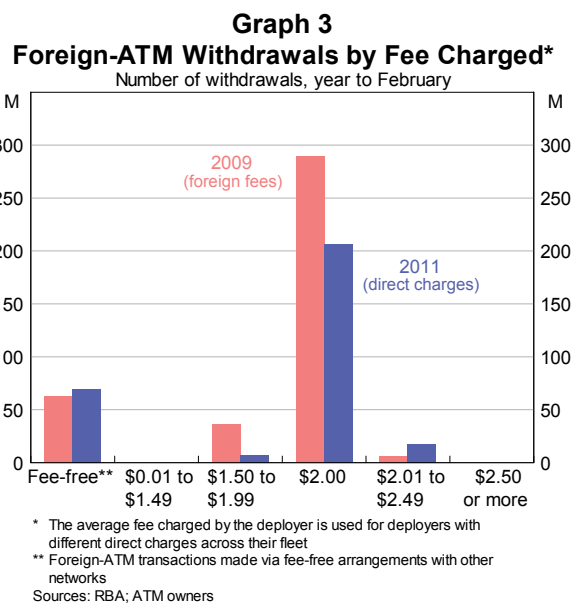
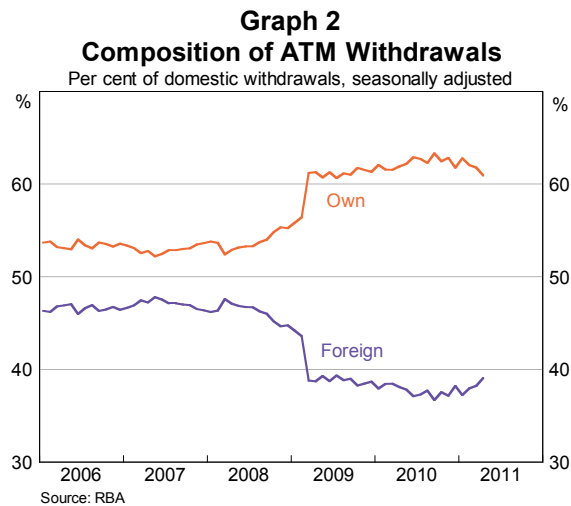
- first, there has been a shift from foreign to fee-free ATMs in response to increased transparency (Graphs 2 and 3). This has been helped by opportunities provided by financial institutions making new arrangements with other providers to allow their own customers access to more fee-free ATMs;

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<sup>7</sup> For more detail, see RBA (2008, 2009a and 2009b).

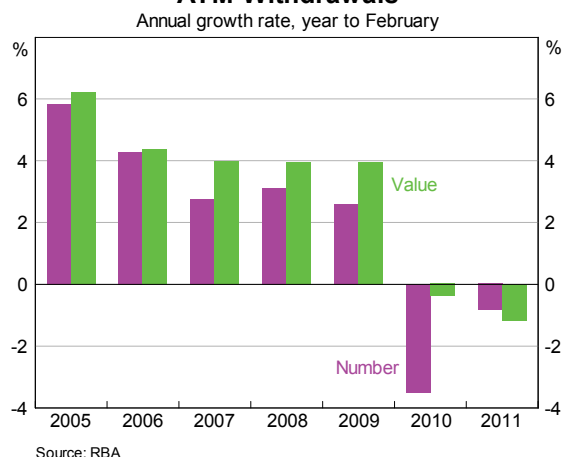
<sup>8</sup> Some institutions also add their own ATM fee, often when the number of withdrawals exceeds a monthly limit. Any institution doing this is responsible for disclosing the fee to the cardholder. The on-screen message discloses that this is a possibility.

- second, the number of cash withdrawals from all ATMs actually fell in the two years following the reforms of 2009, compared with a growth rate of about 4 per cent per annum in the four years preceding the reforms (Graph 4). At the same time, cardholders have economised on transactions, in part by taking out more cash per transaction; and
- third, there has also been greater use of other means to obtain cash, most notably eftpos cash-outs, which typically do not attract a fee (Graph 5).<sup>9</sup>

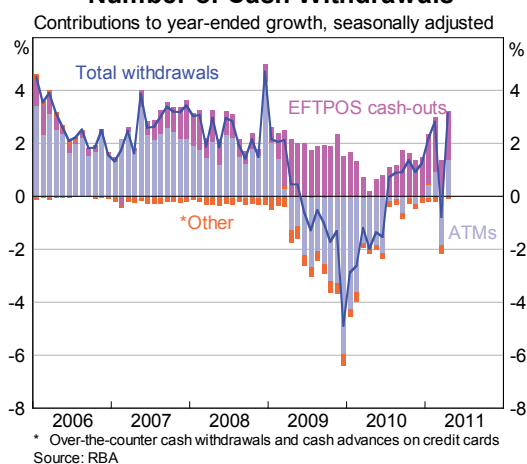


<sup>9</sup> Movements in cash withdrawals during the period immediately following the reforms were also influenced by both the global financial crisis and Government stimulus payments.

**Graph 4**  
**ATM Withdrawals**



**Graph 5**  
**Number of Cash Withdrawals**



38. Related to these developments, there has also been a shift away from using cash as a payment method towards other means to make payments directly (using cards, for example). Data from the Reserve Bank’s Consumer Payments Use Study indicate that between 2007 and 2010, the use of cash as a payment method declined from 70 per cent of the number of consumer payments to 64 per cent, with a commensurate increase in the use of credit and debit cards.<sup>10</sup> Consistent with this, by 2010 cash was the preferred payment method (used more frequently than all other payment methods combined) for purchases of \$40 or less, whereas in 2007 it was the preferred payment method for purchases up to \$50.

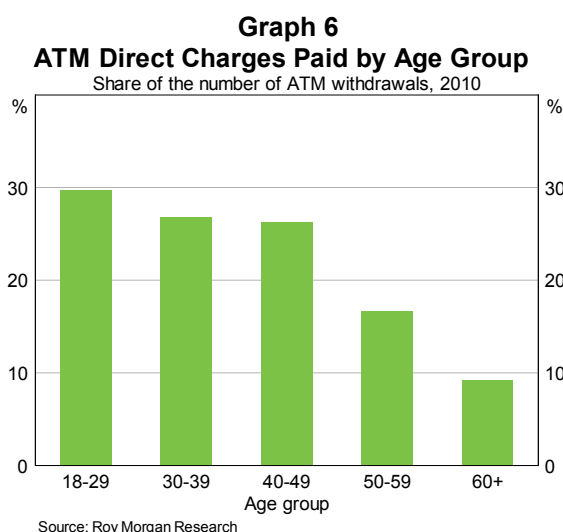
39. In combination, these changes have resulted in a reduction in ATM withdrawal fees paid of around \$120 million in the first year after the reforms and a further \$150 million in the following year.<sup>11</sup> These estimates are likely to understate the full extent of savings associated with the reforms

10 To better understand how individual consumers pay for goods and services, including their cash withdrawal behaviour, the Reserve Bank commissioned Roy Morgan Research to conduct a survey of payment patterns in late 2010. The 1 240 individuals who participated in the Study recorded details of every cash withdrawal they made during a given week, including the method used to withdraw the cash, the amount of cash obtained, and whether they paid a direct charge at an ATM. For further details, see Bagnall, Chong and Smith (2011).

11 The savings in ATM fees on foreign ATM withdrawals is calculated by subtracting the total direct charges paid in each of the first and second years of the ATM reforms from the total foreign fees paid in the year preceding the ATM reforms. These foreign fees and direct charges are calculated using the number of foreign-ATM transactions from the

since cardholders have also economised on balance enquiries that incur a direct charge (either by using their own ATM networks or alternatives such as telephone or internet banking).

40. One issue raised during the consultations conducted prior to implementing the 2009 reforms was that certain groups of consumers – particularly older people – may be less willing or able to seek out an ATM provided by their own financial institution and are, therefore, more likely to pay a fee. The Reserve Bank’s Consumer Payments Use Study suggests, however, that younger consumers are much more likely to pay direct charges than older consumers (Graph 6). This probably reflects a variety of factors, such as different preferences regarding the use of their time and the locations of their cash withdrawals, with older consumers more likely to withdraw cash as part of a regular pattern.

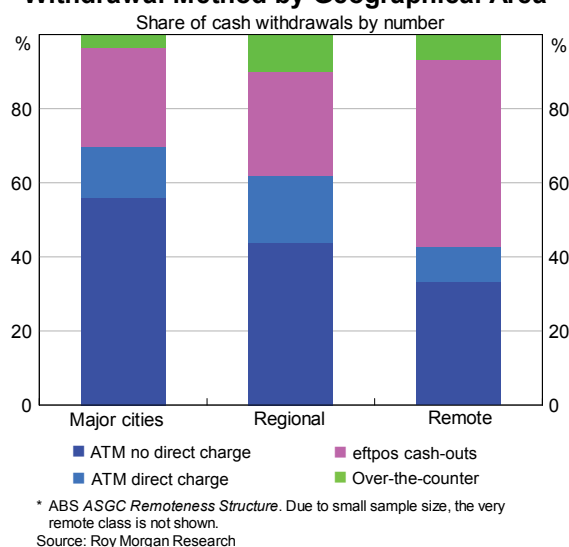


41. Another issue often raised during consultations is that people in non-metropolitan areas are more likely to pay ATM charges than those in metropolitan areas because they have more limited access to ATMs provided by their own financial institution. The survey results confirm this: on average, people in regional areas pay a direct charge on a larger proportion of their ATM withdrawals (29 per cent) than those in major cities (20 per cent, Graph 7). ATM withdrawals incurring a direct charge also make up a slightly higher share of their cash withdrawals from all sources (18 per cent), compared with those living in major cities (14 per cent). However, the situation is quite different in areas classified as ‘remote’, where ATM withdrawals incurring a direct charge make up only 9 per cent of cash withdrawals from all sources – the lowest of any of the location classifications that can be analysed from the Consumer Payments Use Study. Instead, use of eftpos cash-outs in these areas tends to be much higher than in major cities. Hence, it appears that most people in remote areas can still access cash without paying a fee for ATM withdrawals.

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Reserve Bank’s Retail Payment Statistics and fee data from individual ATM owners, with adjustments made for fee-free arrangements both before and after the ATM reforms; adjustments use a combination of data provided to the Reserve Bank by selected institutions on their fee-free arrangements and estimates by the Bank. Such fee-free arrangements include: agreements that provide cardholders with charge-free access to another owner’s ATMs; ATM sub-networks (e.g. rediATM); and arrangements between merged financial institutions (Filipovski and Flood 2010).

**Graph 7**  
**Withdrawal Method by Geographical Area\***



42. The Consumer Payments Use Study does not provide sufficient data to analyse *very remote* locations. In very remote Indigenous communities, ATMs are generally deployed by independent providers and fees are often charged on eftpos cash-outs, leaving consumers with no option but to pay a fee to obtain cash.

43. Following the ATM reforms of 2009, consumers now have the opportunity to cancel an ATM transaction without charge if they do not wish to pay the fee displayed. Data on the extent to which cardholders have taken this opportunity have not been readily available previously. To address this issue, the 2010 Consumer Payments Use Study specifically asked consumers about their reactions when faced with a direct charge. Around 10 per cent of respondents indicated that they had planned to make an ATM cash withdrawal in the past month but cancelled the transaction because the ATM owner charged a fee. This willingness to cancel transactions suggests that there are ongoing benefits to the increased transparency flowing from the reforms, and that there may be some scope for ATM owners with lower costs to attract foreign withdrawals by lowering their direct charges.

44. Conversely, the Study found that around half of consumers had completed an ATM withdrawal knowing that they would incur a direct charge. This group appears to have made a judgement that the cost, in terms of time and effort, of locating and travelling to the nearest own-ATM exceeded the direct charge. Less than 10 per cent of consumers indicated that they did not know the location of their own institution's nearest ATM.

## Deployment

45. The move to direct charging has made deploying ATMs in high-cost or low-volume locations more viable since fees are now able to better reflect costs. Reflecting this, the number of ATMs increased to 29 500 by end 2010 from around 27 000 prior to the reforms. Looking over a number of years suggests that the growth rate of the number of ATMs increased following the reforms – from an average of about 3.0 per cent per annum from 2005 to 2008, to 5.9 per cent over 2009 and 2010.<sup>12</sup>

<sup>12</sup> Calculated from Australian Payments Clearing Association (2011a).

Independent deployers accounted for close to 60 per cent of the increase in ATMs deployed in the year to June 2010, largely reflecting the activity of new entrants.<sup>13</sup>

46. Growth has occurred across both metropolitan and non-metropolitan areas, with the latter currently accounting for about 42 per cent of ATMs.<sup>14</sup> The installation rate for ATMs in remote and very remote communities has increased substantially during the same period.<sup>15</sup>

47. In addition, many cardholders have the opportunity to access a large number of machines due to a number of fee-free arrangements between networks or between issuers and networks. The more substantial arrangements put into place since the reforms include those between: NAB and the rediATM network; Bank of Queensland and the rediATM network; Bendigo Bank and Suncorp; Citibank and Westpac; and HSBC and Westpac. These arrangements were prompted by the introduction of direct charging in 2009, which increased the cost to financial institutions of providing fee-free access to foreign ATMs for their own account holders (previously they had to absorb the interchange fee of around \$1.00, whereas after the reforms they would have to cover the direct charge of around \$2.00 on average by way of a rebate to their account holders). Hence, financial institutions without a sizeable existing network of their own had an incentive to create such a network quickly by entering into co-operative arrangements with other deployers.

## Costs

48. By increasing the revenue accruing to independent ATM deployers, the reforms have increased the extent of competition for ATM sites that provide customers with a measure of convenience. At such locations, customers are willing to pay the direct charge only if the cost to them of obtaining cash via an alternative means (such as going to the nearest own-ATM) exceeds the direct charge levied. This added competitive pressure to secure suitable locations has contributed to a significant rise in site costs, which has accrued as revenue for site owners. Edgar, Dunn & Company (2010) reports that for independent deployers, site costs per transaction increased by as much as 40 per cent between 2007/08 and 2009/10.<sup>16</sup> Some deployers have suggested that the rise in site costs has been exacerbated by increased transparency, as site owners are demanding an increasing share of direct charge revenue; increased competition among ATM deployers means that some – particularly newer entrants – are willing to pay these higher rates to secure desirable ATM sites. In this way, competition for ‘convenience’ sites can lead some merchants to secure ATMs that levy high direct charges. However, because contracts roll over only every few years, a general rise in site-rental costs will take time to be reflected in average costs across a given network of ATMs.

## Prices

49. It is worth emphasising that the majority of ATM transactions – around 70 per cent in early 2011 – are undertaken without consumers incurring a direct charge.<sup>17</sup> For foreign transactions that do

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13 Edgar, Dunn & Company (2010).

14 The metropolitan and non-metropolitan split is calculated from a combination of data provided by Edgar, Dunn & Company (2009, 2010) and data provided to the Reserve Bank by ATM owners.

15 The installation rate measures the number of ATMs being installed in a location for the first time, as well as the ‘churn’ in ATM locations (i.e. one ATM replacing another), but does not take into account the removal of ATMs.

16 This per transaction calculation exaggerates somewhat the increase in the fixed component of such costs since transaction numbers per independent ATM have fallen over this period, by about 20 per cent from 2008 to 2010.

17 According to the Reserve Bank’s Consumer Payments Use Study, 23 per cent of ATM withdrawals incurred a direct charge during the week of the study. This is a lower figure than the 30 per cent estimated using data collected from financial institutions. It is possible that respondents to the Payments Use Study may have modified their behaviour

incur a charge, measuring the change in prices over time can be done in at least two ways. The first is to consider prices that apply at each ATM and examine how the distribution has changed over time. While informative, this method gives undue weight to higher-priced ATMs. This is because this method implicitly assumes that all ATMs attract equal shares of foreign transactions, whereas higher-priced machines are likely to attract a lower share because consumers do not like to pay higher prices if they can avoid them. An alternative method that avoids this problem is to consider changes in the distribution of prices actually paid by consumers, which will account for variation in the intensity with which different ATMs are used. It is also closer to the way in which prices of different goods and services facing consumers are normally measured: that is, by applying weights to different items according to their share of consumers' expenditure.

50. Starting with the first method, the most recent data indicate that, averaged across ATMs, there has been a small increase in the fee for withdrawals, to a direct charge of \$2.04 from the \$2.00 foreign fee typically charged prior to the reforms (Table 3). Around 17 per cent of ATMs now charge more than \$2.00 for a foreign withdrawal. An important factor contributing to the increase in this *average* fee across ATMs is the change in the composition of locations and owners of ATMs: more ATMs are now installed in higher-cost locations or deployed by ATM owners that charge higher prices. Also, some deployers have increased charges on some existing ATMs.

**Table 3: Direct Charges by ATM**  
As at December 2010, per cent of ATMs in each price band

	Withdrawal	Balance enquiry
\$0.50 or less	0.3	6.7
\$0.51 to \$1.00	0.0	7.8
\$1.01 to \$1.50	6.0	0.4
\$1.51 to \$2.00	77.1	83.5
\$2.01 to \$2.50	16.3	1.5
More than \$2.50	0.4	0.1
Average (across ATMs)	\$2.04	\$1.82

Sources: RBA; ATM owners

51. For balance enquiries, immediately prior to the reforms most issuers charged a foreign fee of \$2.00. Currently, the average direct charge on balance enquiries across ATMs is \$1.82. The incidence of this fee tends to be even less frequent than it is for cash withdrawals for most customers, in large part due to the availability of cheap alternatives (telephone and internet banking, and the fact that balances are provided on receipts after withdrawals). Another reason for this is the fact that from 2009, the existence of this charge became much clearer to customers. Data from Edgar, Dunn & Company (2010) indicate that balance enquiries make up around 23 per cent of domestic transactions at ATMs owned by financial institutions, compared with only 6 per cent for independent ATMs. This reflects the fact that most transactions at ATMs owned by financial institutions are made by customers of that institution and therefore do not incur a direct charge, while almost all transactions at independently owned ATMs incur a direct charge.

52. The second, and in many ways preferred, measure of price changes is based on the actual prices paid by customers for foreign-ATM transactions. This measure shows that the average price

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during the course of the study as a result of making a record of the direct charges incurred. Data from Edgar, Dunn & Company (2010) suggest that 28 per cent of domestic transactions (including balance enquiries) attract a direct charge.



paid for foreign-ATM withdrawals has not increased since the move to the direct charging regime – it is still \$2.00. So while there has been an increase in the share of ATMs charging more than \$2.00 for cash withdrawals, these machines attract few fee-paying customers. At the same time, there has also been a small increase in the share of transactions occurring at ATMs with direct charges of less than \$2.00.

## V. Views from Consultations

53. The taskforce sought the views of a range of stakeholders – including financial institutions, independent ATM owners, and a number of industry, merchant and consumer representatives – on the need and scope to enhance transparency and competition in the ATM market (Attachment C provides a list of institutions that provided views to the taskforce).

### General comments

54. There is a general consensus among various stakeholders that the introduction of direct charging has benefitted consumers significantly: the increased transparency of ATM fees has resulted in a substantial change in consumer behaviour and a persistent decline in foreign-ATM transactions. Most ATM industry participants see this as evidence that the reforms have achieved their purpose and an indication that consumers now have a high level of understanding of fees. These participants also note that direct charging was introduced relatively recently and the market is still evolving, and so in their view it is too early to consider introducing further reforms.

55. By contrast, consumer groups tend to focus on the fact that the price of foreign-ATM transactions has not fallen since the reforms, and argue that the burden of fees falls disproportionately on some parts of the community. As a result of these concerns, consumer groups propose three broad measures to enhance transparency and competition: additional disclosure requirements on ATMs; increased monitoring of the industry; and price controls of some form.

56. While some industry participants acknowledge that there may be scope for more price competition among deployers, many express concerns that the consumer groups' proposals do not take into account the economics of deploying ATMs. In particular, they argue that a one-size-fits-all policy could not serve an industry where deployers have very different business models. Industry participants further argue that customers in almost all cases are aware of, and willing to pay, direct charges for the convenience that foreign-ATM transactions provide. They do agree that there is a need to do something to help residents of very remote Indigenous communities, but believe this can be best achieved using specific measures that target the particular difficulties facing those communities.

### Transparency and competition

57. While acknowledging the increase in transparency since 2009, consumer groups assert that consumers are still not well informed about the price of a foreign-ATM transaction, nor do they have good information about the locations and prices of nearby alternatives. Of particular concern for consumer groups is the fact that the price is revealed only late in the transaction process, by which time the consumer has incurred a cost already (in terms of time and effort). Accordingly, consumer groups propose that ATMs have additional, upfront disclosure. First and foremost they argue that machines should advertise the price charged for foreign-ATM transactions so as to be clearly visible to a passer-by.

58. Most industry participants argue that the current on-screen notification system is already sufficiently transparent. They cite the persistent shift in consumer behaviour as evidence of adequately informed consumers, who choose to pay for the convenience of using foreign ATMs from time to time. While some ATM deployers acknowledge that there may be some benefits to upfront advertising and have no in-principle objections to it, they believe that the benefits would be only marginal and unlikely to outweigh the costs to deployers.

59. In particular, industry participants question the price-sensitivity of customers currently paying foreign-ATM fees, and whether additional disclosure would indeed drive more price competition given their already-high level of awareness of the existence of direct charges. They frame the cardholder's decision as choosing whether or not to pay a fee. In their view, additional disclosure would do little to foster price competition if consumers are paying fees in locations where machines are more dispersed, or if they are unwilling to go to the trouble of finding an alternative option.

60. Deployers also note some practical complications with upfront advertising, including: the potential for it to confuse those customers who are not liable for a fee at their own ATMs; the related difficulty in communicating a complex sub-network arrangement with a large number of participating institutions through upfront disclosure; vandalism of any external signage and its implications for compliance; and physical constraints on the façade of ATMs. One financial institution provided anecdotal evidence that cardholders do not pay attention to signage on a machine's façade (such as that related to functionality). Some deployers also noted that upfront signage may introduce a degree of price rigidity as it becomes more difficult for owners to quickly change their fees in response to competition.

61. While physical signage (on or near machines) might be the lowest-cost option for some machines, for others it would be cheaper to display fees on-screen (say for a proportion of the time that an ATM is not in use). For many ATMs, this functionality is already available and is being used to advertise a financial institution's own products or to generate advertising revenue; because on-screen messages at many ATMs can be adjusted remotely, the main cost of displaying the price would be forgone advertising revenue. For other ATMs, introducing on-screen advertising would require a software upgrade and owners would incur the associated costs. For a small number of existing ATM models, it may not be possible to introduce this functionality at all.

62. Some consumer groups go even further by proposing that upfront disclosure on ATMs should also indicate the location of nearby competitors and the prices that these competitors charge. These groups consider that ATMs are an 'essential service', and point to similar requirements for hospitals and pharmacies. Industry participants object to this proposal, arguing it would place a more onerous burden on them as they are not necessarily in the best position to provide such information (in part because, unlike the example of hospitals, ATMs are easier to install and then remove from locations). Another suggestion of some consumer groups is for software applications detailing the locations and price of ATMs from all deployers to be developed (as is the case in some overseas markets).

63. Separately, the Senate Economics References Committee's report has recommended that the Australian Payments Clearing Association (APCA) and the Australian Bankers' Association encourage their members to introduce on-screen, real-time warnings where penalty fees – such as for overdrawing accounts – will be imposed if a particular ATM transaction were to proceed. This would reduce the need for a balance enquiry before making a withdrawal in some cases. However, it would potentially require some significant software redesign with associated costs.

64. A recent informal survey of a number of selected industry participants by APCA provides a preliminary sense of the relative costs of alternative means of disclosing prices in an upfront manner.

Although it is hard to judge the true cost of any such disclosure without detailed guidance on what might be appropriate, the APCA survey suggests that physical signage would cost much more than some form of on-screen message – about three times more to implement and more than 10 times more on an ongoing basis.

65. Finally, some consumer groups have proposed that the Reserve Bank monitor the ATM industry more intensely, with a view to collecting more regular and extensive data (such as on the costs for different ATM locations and expenditure on ATM fees by different parts of the population).

## Price controls

66. Consumer groups express a desire to see price caps of one form or another imposed if no clear signs of price competition in the ATM market emerge in the near future.

67. Some advocates of price controls express concerns about the burden of ATM fees on some groups in the community that might suffer from a lack of access to fee-free ATMs and yet also rely on balance enquires at ATMs to help keep track of their finances. Others suggest that financial institutions earn excessive profits from their ATM fleets. In both cases, proponents view the level of direct charges as being far above the cost of providing services. Some consumer groups have also called for fee-free bank accounts to be extended to allow account holders to access foreign ATMs at no charge (for example, by ADIs providing rebates to their account holders for any direct charges that they might incur).

68. Deployers argue against any price controls on the basis that they are an inefficient alternative to a competitive market. In particular, they argue that it would be extremely difficult (and costly) to determine appropriate caps across the wide variety of locations and business models, and to adjust these to account for changes in costs over time. If caps were set too low, ATMs might be removed from higher-cost locations, even if demand were otherwise sufficient there (at the uncapped price). And if caps were set too high, it might encourage owners to keep prices higher than would be the case in a market without price controls.

69. For ATMs to remain viable under a single cap applied to all machines, financial institutions note that a degree of cross-subsidisation may be required. In particular, to maintain their higher-cost ATMs, financial institutions might be required to charge all their account holders higher account-keeping fees; in this case, the cap would force customers of financial institutions who choose not to use foreign ATMs to subsidise those that do.

70. Some consumer groups argue more specifically for balance enquiries to be free to all cardholders because the marginal cost of a balance enquiry is close to zero. While they acknowledge that such a restriction would risk pushing up the cost for cash withdrawals, they see this as moot since a balance enquiry is typically followed by a withdrawal, thereby enabling deployers to earn sufficient revenue.

71. However, industry participants note that the marginal cost of a balance enquiry is not zero.<sup>18</sup> For some ATMs, telecommunications are an important marginal cost when machines are reliant on

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<sup>18</sup> The main difference in marginal costs between a withdrawal and a balance enquiry relates to the costs associated with the provision of cash.

dial-up facilities.<sup>19</sup> There are also costs associated with processing each enquiry. More significant though for many independent deployers are rebates to site owners for each transaction as part of a revenue-sharing arrangement.

72. Putting aside these arguments, industry participants note that ATMs involve large fixed costs that need to be recouped, and that revenue from direct charges for balance enquiries plays a significant role in maintaining the viability of ATMs at some sites. Without this revenue many machines would either require some sort of public subsidy or higher direct charges for cash withdrawals.

## **VI. Competition and Market Inefficiencies – Taskforce Findings**

73. The following discussion summarises the findings and views of the taskforce on the current state of competition in the ATM market and the extent to which it may suffer from any inefficiencies that may warrant intervention of one sort or another. This discussion draws on the available data and makes references to the arguments put to the taskforce during the course of its consultations.

### **The Current State of Competition**

74. Overall, for most regions of Australia there appears to be a reasonable degree of competition in the market for the services provided by ATMs in terms of both competing products and competing firms. Very remote Indigenous communities are an important exception to this. Issues specifically facing these communities were the subject of the taskforce's first report, submitted to the Treasurer in February 2011.

75. The vast majority of Australians have ready access to a wide variety of options to obtain cash and make balance enquiries, including a number of free or low-cost options. Alternatives such as the use of customers' own ATMs, cash-out at eftpos, as well as telephone and internet banking, provide significant (low-cost) competition for foreign ATMs.

76. The structure of a market can have an important bearing on the extent of competition. In the Australian ATM market, unlike other areas of the payments system, non-financial institutions play a significant role, with around half of ATMs run by independent deployers.<sup>20</sup> Indeed, the largest ATM networks are owned by independent deployers. Even so, no single deployer owns more than 20 per cent of ATMs. Based on the Herfindahl-Hirschman Index (HHI), a common measure of market concentration, the Australian ATM market appears to be reasonably competitive.<sup>21</sup> Also, there are a number of very smaller players, each with only a few machines, consistent with modest costs of entry.

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19 Indeed, the logic of the argument for free balance enquiries (on the basis that it is an essential service and important for the prudent management of household finances) can be extended to apply to any telecommunications facility to provide a free service for customers to contact their financial institution.

20 However, only 16 per cent of ATM transactions occur at independent ATMs since customers generally incur a charge at these machines (Edgar, Dunn & Company 2010).

21 The HHI for the Australian ATM market is about 0.11, based on the number of ATMs deployed by a sample of 27 deployers (using data provided to the Reserve Bank by ATM owners). The HHI is the sum of the squares of each firm's market shares and can take on values from one (a pure monopoly) to a number approaching zero (a highly competitive market with numerous firms). To get a sense of magnitudes, an HHI of 0.11 is consistent with a market of nine equally sized firms.

77. Another feature of a competitive market is that suppliers are not able to generate excessive profits. It is difficult to get an accurate measure of the profitability of ATM operations, in part because many deployers partake in a range of business activities beyond ATMs, especially in the case of financial institutions. Even so, there are some data available from the few publicly listed independent ATM providers (for which deploying ATMs accounts for a significant share of their business). These data suggest that the return on equity in this segment of the ATM market over recent years has tended to be lower than both that of the firms that make up the ASX200 and the average of the larger banks.

78. In assessing competition within the ATM market, consumer groups have pointed to the margin between direct charges and the average industry-wide cost of an ATM transaction. However, this ignores important differences in the two types of businesses in the industry, which in many ways compete for different types of transactions.

79. Financial institutions compete for depositors partly by offering extensive ATM networks they can use free of charge. ATMs owned by financial institutions generate a large number of transactions from their own account holders: around 83 per cent of their transactions incur no direct charge (Edgar, Dunn & Company 2010). Notwithstanding the lower site costs they typically enjoy (with many ATMs located at their own branches), the direct charge revenue for financial institutions' ATMs is insufficient to cover the costs of providing their networks. Not surprisingly, they see it as reasonable to recover some of their costs from users of their ATMs who are customers of competing financial institutions. This helps to reduce the extent to which they have to recoup costs from other sources, such as account-keeping fees and the like.

80. By contrast, direct charges form the main source of revenue for independent owners, with almost all of their transactions attracting a direct charge. This means that their machines will tend to attract far fewer transactions, which implies high average costs per transaction. It also means that independent ATM deployers will find it hard to compete in locations that are already well served by ATMs owned by ADIs. As such, independent owners view themselves as being in the business of providing a convenience to those customers willing to pay for it. Hence, competition among some independent players occurs mainly through securing ATM sites that could be expected to attract more transactions. It follows then that there is more competition for ATM sites in the 'convenience' segment, where consumers decide to pay a direct charge only if the implicit cost of going to the nearest own-ATM, obtaining cash via some other means, or not obtaining cash at that time, exceeds the direct charge levied.

81. These differences between the two business models have several implications for competition. First, some financial institutions have characterised the general lack of reductions in the level of direct charges following the reforms as being driven by the relative price insensitivity of consumers using foreign ATMs deployed as 'convenience' machines, where modest differences between prices charged at different ATMs are unlikely to influence a consumer's choice even if they were fully informed about nearby ATM prices.

82. Second, more established (and hence typically larger) players have had the advantage of capturing higher-volume sites and locking in contracts with lower site costs/rebates. On average, payments for each non-branch ATM site are now more than double those for branch ATM sites; on a per-transaction basis this differential is even larger as the average volume of transactions at non-branch ATMs is less than half that at branch ATMs (Edgar, Dunn & Company 2010). Some stakeholders argue that the relative stability of the level of direct charges is not an indication of a lack of competition. Rather, it should be seen as evidence of a competitive market given the rapid rise in site costs over recent years.

83. Third, discussions with ATM owners highlight significant variation in costs between larger and smaller deployers. Currently the Edgar, Dunn & Company's '2010 Australian ATM Market Study' data provide the most readily available and comprehensive information on ATM costs, but these focus on larger, more established ATM owners. Vertical integration, the bargaining power of larger players, and the lower average site costs of more established players tend to provide these owners with a cost advantage.

84. To better understand these various influences on costs, the Reserve Bank requested data from most ATM deployers, including small players not captured in the Edgar, Dunn & Company study, and on a more timely basis than the most recent version of that study. However, the data provided given the time available were not comprehensive enough, nor did a sufficient number of deployers submit data, to allow any reliable conclusions to be drawn.

### **Remaining Market Inefficiencies**

85. As discussed above, the regime prior to 2009 had been based on interchange fees, which were largely fixed. They had been set at levels that may have been too low to ensure the long-term viability of many independently run ATMs, particularly in higher-cost locations. This inefficiency was compounded by foreign fees that were not transparent to consumers and were essentially independent of the cost of using a particular ATM. The move to the direct-charging regime in 2009 overcame these two significant inefficiencies.

86. While transparency has increased in one important dimension – consumers are now clearly aware of the cost of foreign ATM transactions – it is lacking in another: it takes some time and effort for consumers to determine the price of a foreign transaction at any given machine. This impediment may act, at the margin, to impair further price competition between ATM providers attempting to attract foreign-ATM transactions.

87. The problem is that there is little, if any, incentive for deployers to advertise the price of foreign-ATM transactions on their machines in an upfront fashion. There are two reasons why a deployer might be reluctant to advertise prices on its own (that is, given the absence of advertising by any others). The first is the potential to confuse those customers who can use that deployer's machines at no charge (because they have an account at a financial institution belonging to the ATM network in question). The second reason is that it may confuse customers more generally by highlighting the fact that a foreign transaction at that machine will incur a charge rather than encouraging a comparison with charges of other machines.

88. A separate concern is that there may be some in the community who are forced to pay a direct charge because they are unable to access low-cost alternatives for cash and/or balance enquiries available to most Australians. However, the taskforce is satisfied that most cardholders effectively have access to a fee-free network of at least 1 800 ATMs. The issue is whether these are located conveniently for individual cardholders, particularly the elderly and those in more remote locations. However, as discussed in Section IV, there is evidence that most people in remote areas can still access cash without paying a fee for ATM withdrawals. Also, it appears that younger consumers are much more likely to pay direct charges than older consumers. People for whom access is clearly a significant problem are those in very remote Indigenous communities. Given this, a detailed discussion of the difficulties that these communities face in regard to ATM services, and the scope to address these in a targeted fashion, is provided in the February 2011 ATM taskforce report.

89. Finally, it has been suggested by some consumer groups that ATMs often enjoy a degree of localised monopoly power in more isolated sites that can support at most one ATM. While this is true to an extent, even this market power is limited since other deployers may well be in a position to offer to provide a lower-priced alternative. The problem, however, is that some site owners will want to maximise their own interests by securing an ATM that will deliver them the greatest revenue. In this case, the market power is in the hands of the site owner rather than the ATM deployer.

## **VII. Taskforce Recommendations**

90. In the view of the taskforce, the impact of the 2009 ATM reforms has been overwhelmingly positive for the ATM market and for consumers. On the demand side, consumers became well aware that it costs them something to conduct a foreign ATM transaction. They have responded accordingly by significantly reducing such transactions in preference to using their own ATMs and by finding alternatives, such as eftpos cash-out. In this regard, the reforms have been very successful, reducing expenditure by customers on ATM fees by at least \$120 million in the year following the reforms and a further \$150 million in the following year.

91. On the supply side, the increase in the number of ATMs – including to regions outside of metropolitan centres – has been to the benefit of consumers. Much of this expansion is attributable to independent deployers (including several new entrants), which have benefited from the shift to direct charging. One consequence, however, of rising competitive pressures is the noticeable rise in site costs, particularly in the independent segment of the ATM market.

92. While there has been a change in the distribution of prices for foreign-ATM transactions, the average price actually paid by customers has changed little since the advent of direct charges, remaining close to \$2.00 for a cash withdrawal when a fee is charged. It is true that prices for some machines are higher than had been the norm in the past, but these machines attract far fewer transactions. Also, prices for some machines have fallen. More importantly though, the vast majority of ATM transactions incur no charge at all, and most Australians are able to access fee-free ATMs as well as a range of other alternatives to obtaining cash and balance enquiries, which typically do not attract a fee.

93. Despite the success of the reforms, the taskforce recommends further measures in two areas – improved disclosure of direct charges and increased monitoring of the industry – while it sees no case for stricter regulatory measures, such as price controls.

### **Improved disclosure of direct charges**

94. Heightened competition for the ATM market has, initially at least, been focused on increasing the supply of machines. Even so, there may come a time when greater attention is paid by suppliers to gaining market share by adjusting prices to attract foreign-ATM transactions away from competitors. To this end, the taskforce believes that competition could be enhanced, at the margin, by improved transparency of the level of direct charges.

95. While consumers are aware that foreign transactions incur direct charges, currently it is not made clear to them just what these charges are when approaching or passing by ATMs, either when searching for cash or coincidentally as they go about their daily routine. Upfront advertising of prices may help consumers to become better informed over time about which machines have the lowest prices, although any additional disclosure would initially influence only those consumers who are

both willing to pay a fee for foreign-ATM transactions and are price-sensitive. But eventually this would help to encourage more price competition, particularly in locations serviced by a number of ATMs in close proximity to each other.

96. During consultations, industry expressed concerns about the costs of upfront disclosure. It will be important to address these concerns and, where possible, to minimise compliance costs by allowing for any advertising requirements to be flexible – in terms of the nature of the advertising and the time allowed for implementation. In particular, it may make sense to allow deployers to comply with any disclosure requirements via slightly different advertising approaches to account for differences in the nature of their ATM fleets and business models.<sup>22</sup>

97. However, the taskforce considers that the proposal to require deployers to advertise the prices and location of nearby ATMs on their own machines would place too onerous a burden on deployers. Such a measure would essentially require a deployer to gather and disclose information on its competitors. While it may cost customers some time and effort to ‘shop around’ for the best price, shifting the cost to deployers in this way is a burden not seen in other industries. Moreover, deployers may not be well placed to gather and ensure the accuracy of such information. However, to the extent that accurate and timely information on the location and price of ATMs were to be gathered and published by a third party (on the internet, for instance), a strong case could be made to ensure that such efforts are not discouraged in some way by ATM owners.

98. In summary, the taskforce believes that there is a good case to require deployers to advertise prices on all machines in some upfront fashion; exactly how this is to be achieved will require further consultation with industry to determine minimum standards and to help minimise the costs of compliance.

## Increased monitoring

99. Enhanced disclosure on each machine could be supported by increased publication of industry-wide data. To this end, the taskforce sees benefits in ATM deployers submitting a reasonably comprehensive set of data to the Reserve Bank for it to disseminate in an appropriate form on a regular basis. Doing so would allow consumers to gain a better understanding of the costs facing the industry and the range of prices on offer.

100. The Reserve Bank already monitors and reports on developments in the ATM industry, making use of both regular collections and ad hoc requests and surveys. However, a more regular and standardised approach may help to minimise the burden on industry participants, especially for smaller independent deployers for which this would be relatively more costly (as a share of their existing administrative expenditure).

101. Of course, the benefits of any increase in the scope of the Bank’s data collection must be weighed against the cost this imposes on participants. To help limit the regulatory burden, the type of data collected could be aligned with that of Edgar, Dunn & Company.<sup>23</sup>

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22 For example, following the 2009 reforms a small number of ATMs were temporarily exempt (under transitional arrangements) from the on-screen disclosure requirement. Instead, owners of those ATMs were allowed to disclose the direct charge using a clearly displayed sticker until the ATM could be re-programmed to provide on-screen notification.

23 Edgar, Dunn & Company collects data on ATM direct charges by location and cost and revenue data from many of the larger ATM deployers.



## Regulatory controls

102. The taskforce considers that imposing a stricter regulatory burden on the industry, such as price controls, may lead to significant inefficiencies in at least three ways.

103. First, mandating that an ATM deployer provide a service at a set price is an onerous obligation (particularly for an industry that is relatively competitive). For financial institutions, this means setting the price that they may charge other institutions' customers, which may lessen their incentive to expand their ATM networks or may even cause them to cease providing ATM services to customers of other institutions. It may also lead deployers more generally to remove existing machines in higher-cost locations as there would be less freedom to price services according to the costs. To avoid rendering higher-cost ATMs uneconomic (particularly in locations with sufficient demand), price caps would need to vary by location and over time (in response to variation in costs). This would impose a significant ongoing administrative burden.

104. Second, if all balance enquiries were free, consumer behaviour would be likely to change, with consumers making far more frequent balance enquiries. The taskforce does not accept that balance enquiries are necessarily associated with ATM withdrawals, and their free provision might result in consumers making balance enquiries before withdrawing cash fee-free via an eftpos cash-out. As discussed in Section V, there is a cost in providing balance enquiries and, therefore, making them free may lead to a decline in the number of ATMs deployed over the longer term, particularly in locations with limited 'traffic' where deployers face a higher cost per transaction.

105. Third, pricing based on marginal cost could not cover the large fixed costs associated with deploying an ATM. Forcing deployers to price transactions at marginal cost would require a public subsidy to independent deployers and force financial institutions to recover costs from their account holders in some way to ensure the viability of ATMs.

106. Finally, the taskforce believes that addressing the specific difficulties associated with the use and availability of ATMs in very remote Indigenous communities would be best done via a targeted solution rather than a one-size-fits-all approach. The taskforce's first report to the Government has made a number of recommendations to that effect.

## VIII. Next Steps

107. The taskforce found there to be a reasonable degree of transparency and competition in the ATM industry. Accordingly, the case for significant further regulatory action is not strong, particularly since the industry is still evolving following the 2009 reforms. To date, competition among owners has been focused on deploying new ATMs, but over time, as the ATM market reaches saturation, attention may shift towards price competition. To assist this, the taskforce recommends two measures to further increase transparency:

- require enhanced disclosure of prices on ATMs, with prices displayed in a way that is clearly visible without the need to insert a card into the machine. Upfront advertising of direct charges, when adopted across the industry, may assist low-cost ATMs to compete for foreign-ATM transactions; and
- ongoing and regular provision of data to the Reserve Bank by the ATM industry for dissemination in a suitable form.

108. The next steps will require discussing the proposals with industry to gather further information to assess the impact of proposed recommendations before refining the options further. Implementing the first measure will require further consultation with industry on the exact requirements to ensure that fees are communicated clearly and to develop a flexible approach that minimises the cost of compliance where possible. To implement the second measure, the Reserve Bank will also need to work closely with industry to develop an appropriate approach for collecting and disseminating data.

## Attachment A: Terms of Reference

The taskforce will consider the impact of the ATM reforms on:

- the transparency and level of ATM fees;
- consumer behaviour;
- competition in the ATM market; and
- the deployment of ATMs.

The report will include recommendations on the need for further measures to enhance competition and transparency in Australia's ATM industry.

The taskforce will examine issues relating to the cost of ATM access for Indigenous and other remote communities.

Recent reports have suggested that ATM fees can impact disproportionately on residents of remote Indigenous communities. Accordingly, the taskforce will examine:

- provision of ATM services in remote communities;
- fees for ATM services in remote communities;
- the impact of these fees on residents in remote communities; and
- alternatives to current arrangements and practices for accessing cash and account balance information in remote communities.

The report will include appropriate actions for dealing with issues that are identified by the taskforce.

## Attachment B: ATM Fees in Selected Countries

### ATM Fees in Selected Countries Range of fees for a foreign-ATM transaction (Australian dollars)<sup>(a)</sup>

	Direct charge	Foreign fee	Interchange fee levied?	Total
<b>Australia</b>				
<i>Financial institutions</i>	Nil to \$2.50 <sup>(b)</sup>	Nil <sup>(d)</sup>	No	Nil to \$2.50
<i>Independents</i>	Nil to \$5.00 <sup>(c)</sup>	Nil	No	Nil to \$5.00
<b>Canada</b>				
<i>Financial institutions</i>	\$0.97 to \$1.93	Nil to \$3.47	Yes	\$0.97 to \$5.40
<i>Independents</i>	\$1.45 to \$4.82	Nil to \$3.47	Yes	\$1.45 to \$8.29
<b>Germany</b>				
	\$2.56 to \$13.57	Nil	No	\$2.56 to \$13.57
<b>United Kingdom<sup>(e)</sup></b>				
<i>Financial institutions</i>	Nil	Nil	Yes	Nil
<i>Independents</i>	Nil to \$7.71	Nil	Yes	Nil to \$7.71
<b>United States<sup>(f)</sup></b>				
<i>Banks</i>	\$2.19	\$1.32	Yes	\$3.51
<i>Credit unions</i>	\$1.97	\$1.20	Yes	\$3.17

(a) Exchange rates as at 14 June 2011; data as at June 2011 for Australia, June 2010 for Canada, March 2011 for Germany, March 2005 for the United Kingdom, and October 2010 for banks and February 2011 for credit unions in the United States

(b) Some financial institutions have fee-free arrangements with other ATM networks

(c) While almost all independent ATMs levy a direct charge, a few machines do not because of their machine type or location (e.g. machines dispensing foreign exchange may instead levy a currency conversion commission, and machines at some special locations – such as some military bases – are fee-free)

(d) Some financial institutions levy a fee on their own customers if the latter's ATM transactions exceed a certain number in a given month

(e) UK ATM owners can either levy a direct charge or receive an interchange fee, but not both, on the same transaction; interchange fees paid by a cardholder's financial institution may nonetheless be passed on to the cardholder through other means

(f) Average per ATM for a direct charge; average levied per own-customer account for the foreign fee

Sources: Bankrate; biallo.de; Financial Consumer Agency of Canada; House of Commons Treasury Committee; RBA; ATM owners

## **Attachment C: Consultations and submissions**

The Reserve Bank sought data from all ATM owners, building on a number of earlier data collections conducted to monitor the impact of direct charging.

The taskforce also sought views on developments in the ATM market from industry participants, industry groups and non-government organisations (listed below), focusing on:

- the outcome of the March 2009 reforms both for industry and consumers; and
- the need and scope to enhance transparency and competition in the ATM market.

The following institutions provided their views to the taskforce. Feedback from the consultations can be found under Section V of this report.

### **Financial Institutions and Independent ATM Owners**

Australia and New Zealand Banking Group Limited (ANZ)

Bank of Western Australia Limited (Bankwest)

Card Matters

Commonwealth Bank of Australia

Cuscal Limited/rediATM

Customers Limited

First Data Corporation

Indue Limited

Mandrake.ATM

Westpac Banking Corporation

### **Industry groups**

ATM Industry Association

ATM Industry Reference Group

Australian Bankers' Association

Australian Payments Clearing Association

### **Non-government Organisations**

The Australia Institute

The Brotherhood of St. Laurence

CHOICE (Australia Consumers' Association)

Consumer Action Law Centre

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