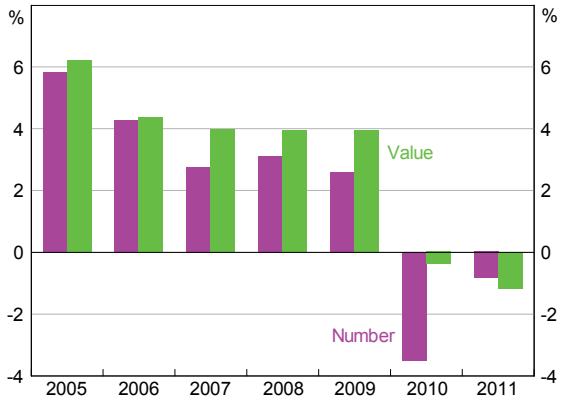
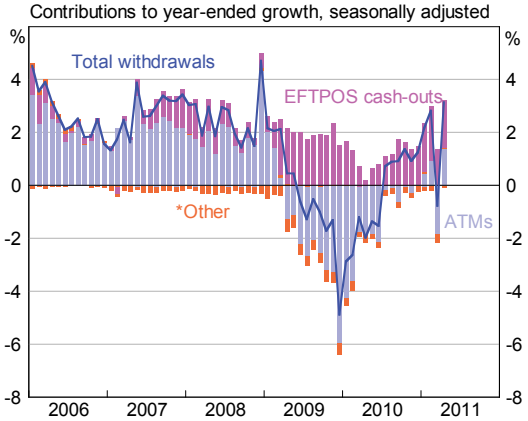
Graph 4
ATM Withdrawals
Annual growth rate, year to February



Source: RBA

Graph 5
Number of Cash Withdrawals
Contributions to year-ended growth, seasonally adjusted



* Over-the-counter cash withdrawals and cash advances on credit cards
Source: RBA

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 (e.g. 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.[10] 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.[11] These estimates are likely to understate the extent of savings associated with the reforms

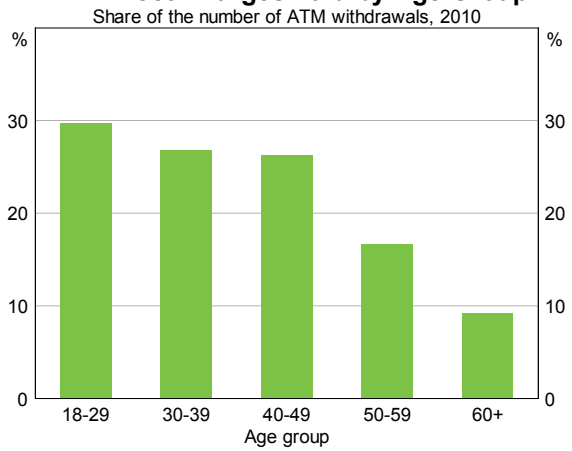
10 To better understand how individual consumers pay for goods and services, including their cash withdrawal behaviour, the Reserve Bank commissioned Roy Morgan Research to conduct a survey of payment patterns in late 2010. The 1 240 individuals who participated in the survey recorded details of every 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 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.

Graph 6
ATM Direct Charges Paid by Age Group
Share of the number of ATM withdrawals, 2010

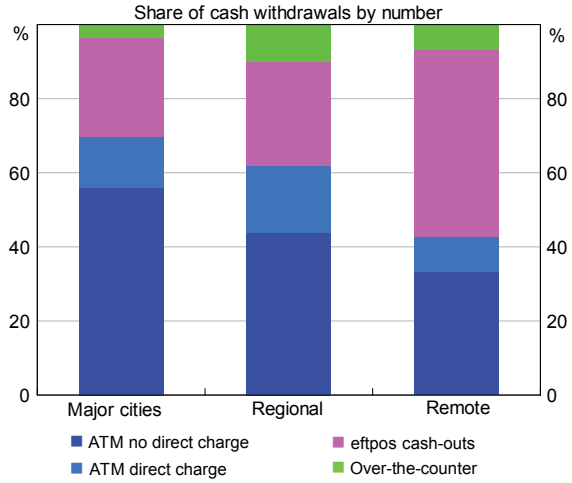


Source: Roy Morgan Research

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.

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*



* ABS *ASGC Remoteness Structure*. Due to small sample size, the very remote class is not shown.
Source: Roy Morgan Research

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.[12]

12 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.[13]

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

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.[16] 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 entrants to secure ATMs that levy high direct charges. However, because contracts roll over only every few years, a generalised 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.[17] For foreign transactions that do

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 for 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

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 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 persisted 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 concern 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 cost of a foreign-ATM transaction, nor do they have good information about the location 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, up-front 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 information 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 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 saying 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 easy 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 when 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 select 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 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 controls 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 lack of access to fee-free ATMs and yet also rely on balance enquiries 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.[18] For some ATMs, telecommunications are an important marginal cost when machines are reliant on

18 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.[19] 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.[20] 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.[21] 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) could 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 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 low 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 cost 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 wave 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 has 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 has lagging 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 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 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 where 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 obtain 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 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.[22]

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 an 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 seeks benefits in ATM deployers submitting a reasonably comprehensive set of data to the Reserve Bank for 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.[23]

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 stringent 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 intervention 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 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 may impact disproportionately on residents of remote Indigenous communities. According ly, 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) [a]

	Direct charge	Foreign fee	Interchange fee levied?	Total
Australia				
Financial institutions	Nil to $2.50[b]	Nil[d]	No	Nil to $2.50
Independents	Nil to $5.00[c]	Nil	No	Nil to $5.00
Canada				
Financial institutions	$0.97 to $1.93	Nil to $3.47	Yes	$0.97 to $5.40
Independents	$1.45 to $4.82	Nil to $3.47	Yes	$1.45 to $8.29
Germany	$2.56 to $13.57	Nil	No	$2.56 to $13.57
United Kingdom[e]				
Financial institutions	Nil	Nil	Yes	Nil
Independents	Nil to $7.71	Nil	Yes	Nil to $7.71
United States[f]				
Banks	$2.19	$1.32	Yes	$3.51
Credit unions	$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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