



# **CASHCARD AUSTRALIA LIMITED**

**SUBMISSION TO THE RESERVE BANK OF  
AUSTRALIA**

***DESIGNATION OF THE ATM PAYMENTS  
SYSTEM***

**JULY 2004**

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## 1. EXECUTIVE SUMMARY

The ATM Industry Steering Group (AISG) has proposed a direct charging model, which sets interchange fees between signatories to zero and allows ATM operators to directly charge cardholders a “convenience fee” for ATM transactions. It provides a number of public benefits including: enhanced consumer choice, creation of economic incentives for expansion of the ATM network, greater consumer convenience, greater price competition at an ATM operator level, greater transparency of fees, and flexibility for smaller issuers to improve their competitive position.

Provision has been made in the AISG model for aggregate networks such as the Cashcard Network and CUSCAL’s Rediteller network to continue to operate with intra-network interchange fees. This is an essential component as it allows smaller financial institutions to remain competitive with larger institutions by providing their cardholders continued low cost ATM access.

Cashcard supports the AISG direct charging model, however, believes further refinement of the AISG model is required to ensure the reforms are in the public interest.

In Australia, issuers have traditionally structured foreign ATM issuer transaction fees in a manner that discourages use of alternative networks (i.e. higher margins are earned on foreign ATM issuer transaction fees). Such pricing places independent ATM operators at a competitive disadvantage which has meant they have tended to compete by locating ATMs in convenience locations rather than by competing on price. In addition, cardholders are able to exert very little pricing pressure on foreign ATM issuer transaction fees due to the difficulty in easily changing bank accounts.

Due to the limited competitive pricing pressure placed on foreign ATM issuer fees, some form of restriction on foreign ATM issuer fees is required during the transition to complement competitive forces in driving down total foreign ATM transaction fees (issuer and operator) under a direct charging pricing regime.

With respect to convenience fees, cardholders will be able to exert pricing pressure on ATM operators through their ability to cancel the transaction (without incurring a fee) if they perceive the fee to be excessive, and “shop around” for an ATM charging a lower fee. However, Cashcard believes that a cap on convenience fees will also be extremely beneficial during the transition, as a safeguard, to ensure a net public benefit is achieved.

Cashcard views that an ATM direct charging regime implemented in an optimal manner will be in the public interest. While the industry has been working hard to pursue voluntary reform with authorisation by the ACCC, the Australian Competition Tribunal decision to set aside the ACCC authorisation of zero EFTPOS interchange fees adds some uncertainty to successful completion of voluntary reform. Hence, Cashcard supports designation of the ATM payments system as a more efficient and timely method for achieving the ATM reform objectives.

In summary, Cashcard considers designation of the ATM payments system will be in the public interest subject to:

- Implementation of an ATM direct charging regime incorporating a zero ATM interchange fee;
- Provision for aggregate networks (e.g. the Cashcard Network and CUSCAL’s Rediteller Network) to be able to continue to utilise intra-network interchange fees;
- Foreign ATM issuer fee caps of \$0.15 per transaction;
- ATM operator convenience fee caps of \$2.50 per transaction;
- Implementation timeframe of 18 months; and
- Designation occurs within 3 months.



The caps provide a benchmark as to the maximum acceptable level for fees, while still providing room for significant pricing competition below this level. Cashcard expects actual average fee levels to be well below the pricing caps. Importantly, the issuer fee cap will encourage more aggressive competition by ATM operators as they compete for transactions (i.e. cardholder patronage of their ATMs) by reducing fee levels (particularly in high street, high volume, locations). As a result, Cashcard anticipates that (with caps in place) price competition will drive down the total average cost of foreign ATM transactions to cardholders.

With regards to access to the ATM payments system, Cashcard considers the current ATM access regime requires only minor adjustment and that Australian Payments Clearing Association (APCA) is the appropriate industry body to set the technical and operational standards. Any revised access regime should enhance access but at the same time ensure that the efficiency and integrity of the current ATM payments system is not reduced.

## 2. DOCUMENT SCOPE

In relation to reform of the ATM payments system in Australia, this document outlines Cashcard's views on:

- Whether designation by the Reserve Bank of Australia (Reserve Bank) is in the public interest;
- Determination of "standards"; and
- The imposition of an access regime.

Cashcard has previously expressed to the Reserve Bank its views on designation of the EFTPOS payments system, hence, this document does not revisit this.

## 3. BACKGROUND

### 3.1 *Cashcard Company Profile*

#### 3.1.1 Overview

Cashcard Australia Limited (Cashcard) is a member of the First Data Group which is Australia's leading payments system services provider. It is the only independent services company to provide high volume payment services across the entire consumer electronic payments spectrum, including ATM and EFTPOS, Direct Entry and BPAY, Telephone and Internet payments.

The Cashcard group was launched in 1982 and now services more than 50 member financial institutions, including Australia's leading regional banks, building societies and credit unions, as well as hundreds of corporate customers. Cashcard is a direct participant in the Australian Payments System, utilising its own Reserve Bank Exchange Settlement Account (ESA). Cashcard is a participating member of the Consumer Electronic Clearing System of APCA.

Cashcard plays a number of roles in the Australian ATM market:

- Manager of the Cashcard Network;
- ATM switch;
- Independent ATM operator; and
- ATM acquirer.

#### 3.1.2 Manager of the Cashcard Network

The Cashcard Network was launched in 1982 by a number of building societies and has since grown to be the primary access point for new card issuing and acquiring institutions. The Cashcard Network now comprises 55 institutions (13 Australian and foreign banks, 16 building societies, 16 credit unions, and 10 other organisations such as American Express, CreditLink and GE Capital).

The Cashcard Network offers an efficient access mechanism to Australia's payments system without the need to negotiate and develop individual interchange agreements. Members of the Cashcard Network are guaranteed interchange access with other members, and Cashcard collectively negotiates access for members with institutions outside the network. Each member organisation acquires ATM and/or EFTPOS transactions in its own right and utilises the Cashcard



Network to provide access to ATMs and EFTPOS terminals beyond the scope of its own, often regional based networks.

Like the LINK network in the UK, Cashcard determines the multilaterally set interchange fee that applies to transactions within the network and settles transactions within the network. However, unlike LINK, Cashcard is only one of a number of networks (e.g. CUSCAL, Commonwealth Bank, Westpac, etc).

### **3.1.3 ATM Switch**

Cashcard maintains a physical network of interchange links with both financial and non-financial institutions. It provides ATM/EFTPOS transaction switching services for a range of institutions, a large number of which are members of the Cashcard Network. Note that members of the Cashcard Network are free to use any switch (third party or in-house).

Through its Exchange Settlement Account (ESA) obtained in 2002, Cashcard also provides settlement services on behalf of most of its members with institutions outside the network.

### **3.1.4 ATM Operator**

Cashcard commenced deployment of ATMs in 1999 with the installation of ATMs at Shell petrol stations. With the subsequent acquisitions of the ATM networks of Armaguard, EBS and Direct Cash, Cashcard is now Australia's largest independent ATM operator.

As an independent operator, Cashcard is supportive of direct charging as it permits operators to cost effectively deploy ATMs in remote locations and low transacting convenience locations where an ATM would not be possible under the current fixed interchange fee environment.

### **3.1.5 ATM Acquirer**

Cashcard began acquiring ATM transactions in its own right for the first time in 2002, shortly after it became a full member of the Consumer Electronic Clearing System of APCA. Cashcard acts as an ATM acquirer predominantly for its own base of ATMs, but also for some small independent ATM operators.

## **3.2 Cashcard's Role in the Reform Process**

In its study of *Debit and Credit Card Schemes in Australia, October 2000* (the "Joint Study"), the Reserve Bank and Australian Competition and Consumer Commission (ACCC) raised a number of concerns regarding the efficiency of the ATM payments system. As a result, the Reserve Bank convened a working group to discuss reform of the ATM payments system. Cashcard participated in this initial working group and continues to participate in its successor, the ATM Industry Steering Group (AISG).

### 3.3 The Joint Study

The Joint Study found:

- The average cost per ATM withdrawal was \$0.49 compared to an average ATM interchange fee of \$1.03 and average foreign ATM fee for cardholders of \$1.35<sup>1</sup>;
- ATM interchange fees have changed little over the last decade<sup>2</sup>; and
- Competitive pressures in card payment networks in Australia have not been sufficiently strong to bring interchange fees into line with costs. The end-users of these services – cardholders – have no direct influence over the setting of interchange fees but must rely on their financial institutions to represent their interests. Large financial institutions have the dominant influence on interchange fee setting; however, since they are both issuers and acquirers and benefit from the revenue generated, they have little incentive to press for lower interchange fees. Where financial institutions can readily pass interchange fees onto their customers, as they can for ATM transactions, there is even less pressure for interchange fees to be lowered. As a consequence, the price signals and competitive responses that would be expected to put pressure on margins in card payment networks have not worked effectively.<sup>3</sup>

The Joint Study proposed a direct charging regime, in which ATM owners could seek to recover their costs directly from cardholders of other institutions using their ATMs, as an alternative to interchange fees in ATM networks.<sup>4</sup>

It may be argued that some of the findings of the Joint Study are now dated. For example:

- The average cost per ATM withdrawal is likely to have increased in recent years due to:
  - The major capital expenditure incurred by many ATM operators in recent years in refreshing (i.e. replacing) their ATM fleets in order to satisfy the impending 3DES standards;
  - The significant increase in the number of ATMs from 12,458 in September 2000 to 20,899<sup>5</sup> leading to a decrease in average monthly withdrawals per ATM of 14%<sup>6</sup>, which implies an increase in the average cost per ATM withdrawal due to fixed nature of many ATM operating costs;
  - [REDACTED]
  - The relatively high transaction cost structure of IAOs due to lower monthly transaction volume per ATM and higher site costs due the competitive pressure to pay higher merchant rebates to secure the best merchant sites. Note that these higher costs are likely to be partially offset by lower ATM device costs.
- Average foreign ATM fees for cardholders are likely to have increased with the major banks now charging approximately \$1.50<sup>9</sup> relative to the industry average in 2000 of \$1.35.<sup>10</sup>

However, despite these changes, the main findings of the Joint Study still appear valid.

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<sup>1</sup> Reserve Bank and ACCC, Debit and Credit Card Schemes in Australia – A Study of Interchange Fees and Access, October 2000, p.ii.

<sup>2</sup> Reserve Bank and ACCC (2000), p. ii.

<sup>3</sup> Reserve Bank and ACCC (2000), p. iv.

<sup>4</sup> Reserve Bank and ACCC (2000), p. ii.

<sup>5</sup> APCA, website: [www.apca.com.au/Public/apca01\\_live.nsf/WebPageDisplay/Stats\\_Terminals](http://www.apca.com.au/Public/apca01_live.nsf/WebPageDisplay/Stats_Terminals), June 2004.

<sup>6</sup> Calculated using the total number ATMs in September 2000 and September 2003 (source APCA website: [www.apca.com.au/Public/apca01\\_live.nsf/WebPageDisplay/Stats\\_Terminals](http://www.apca.com.au/Public/apca01_live.nsf/WebPageDisplay/Stats_Terminals), June 2004) and the total number of ATM cash withdrawals for these months (source Reserve Bank website: [www.Reserve.Bank.gov.au/Statistics/Bulletin/C02hist](http://www.Reserve.Bank.gov.au/Statistics/Bulletin/C02hist), June 2004).

<sup>9</sup> Commonwealth Bank, website: [www.commbank.com.au/personal/other/rates\\_and\\_fees/daytoday\\_options.asp](http://www.commbank.com.au/personal/other/rates_and_fees/daytoday_options.asp), July 2004; Westpac, website: [www.westpac.com.au/internet/publish.nsf/Content/PBTSET+fee+interest+comparison](http://www.westpac.com.au/internet/publish.nsf/Content/PBTSET+fee+interest+comparison), July 2004; National Australia Bank, A Guide to Fees and Charges – Personal Banking Fees, 5 July 2004; ANZ Personal Banking Account Fees and Charges, July 2004; St. George, Bank Accounts – Fees and Charges and How to Minimise Them, 19 May 2004.

<sup>10</sup> Reserve Bank and ACCC (2000), p. ii.



## 4. AISG MODEL

### 4.1 Direct Charging

The AISG has been working together for some time to develop a direct charging regime/model that would adequately respond to the concerns raised in the Joint Study. The AISG had intended to introduce the new model by implementing a new ATM Interchange Fee Agreement.

The major terms of the current draft ATM Interchange Fee Agreement (which has the consensus support of the group) are:

- ATM interchange fees between signatories to the agreement will be set to zero;
- ATM operators
  - May charge a fee, set at their discretion, to a foreign cardholder for successfully completing an ATM transaction (the “convenience fee”);
  - Must disclose on the screen, prior to the cardholder committing to the transaction, the amount of the ATM operator convenience fee;
  - Must disclose on the screen, prior to the cardholder committing to the transaction, that a foreign ATM card issuer transaction fee may be charged by the cardholder’s card issuer; and
  - Permit the cardholder to discontinue the ATM transaction without charge.
- Card issuers
  - Must disclose the amount of any card issuer transaction fee that may be charged;
  - Pay the ATM operator convenience fee to the ATM operator; and
  - Identify separately the ATM operator convenience fee and any foreign ATM card issuer transaction fee (if any) incurred by the cardholder on the cardholder’s statement of account.

As the new ATM Interchange Fee Agreement is not intended to apply to non-signatories, this effectively permits aggregate networks such as the Cashcard Network and CUSCAL’s Rediteller Network to continue to utilise intra-network interchange fees between members, provided the individual members are not signatories to the new agreement. Based on the envisaged participants of a reformed market, the AISG estimates that over 97% of transactions currently subject to interchange fee arrangements will be subject to direct charging.

### 4.2 Access

AISG has requested that APCA undertake a project to develop conditions of entry, which would facilitate effective access to ATM networks for ATM operators and card issuers. In undertaking this project, APCA has been asked to examine the existing environment and any access issues as they may pertain to both incumbent and new network participants. Participation may include participation as a card issuer, an acquirer of ATM transactions, an ATM operator, or any combination of these. Cashcard understands that APCA is willing to undertake this project.

## 5. OVERSEAS EXPERIENCE

### 5.1 Direct Charging

Comparisons to overseas markets need to be made with care due to the different dynamics in each market (e.g. different consumer behaviour, market players, regulations, revenue models, alternative mechanisms for cash withdrawals, alternative payment methods, etc). However, despite these differences Cashcard believes some inferences can be made from the overseas experiences in markets where direct charging has been implemented.

Different direct charging models have been implemented in three overseas markets:

- USA (1996);
- Canada (1996); and
- UK (2000).

The UK market is unique in that, due to the considerable push back from consumer groups when direct charging was first introduced, the banks (voluntarily) elected not to direct charge foreign cardholders using their ATMs or charge foreign ATM issuer fees to their cardholders using foreign ATMs. Instead, financial institutions recover their ATM operating costs via an interchange fee administered by LINK (the centralised switch). As a result, less than 5% of ATM transactions are direct charged in the UK (these are handled by IAOs).<sup>11</sup> Hence, any direct comparison to this market is extremely difficult.

However, the USA and Canadian markets are more relevant. Some common features of the ATM revenue model in these markets include:

- ATM operators can direct charge foreign cardholders;
- Interchange fees are still in place and ATM acquirers/operators can collect the interchange fee and impose a direct charge at the ATM;
- Card issuers can charge foreign ATM issuer transaction fees (sometimes referred to as 'disloyalty fees'); and
- There has been minimal regulatory and network authority intervention related to direct charging.<sup>12</sup>

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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<sup>11</sup> LINK (UK), 2003.

<sup>12</sup> Based on Cashcard research.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]

Unlike the direct charging model proposed by AISG, interchange fees still exist in the USA and Canada and are paid by the Issuer to the Acquirer:

[REDACTED]

## 5.2 Direct Charge Free Aggregate Networks

Direct charge free aggregate networks have been a necessary competitive response in the USA for smaller institutions in the direct charging environment as they have sought to compete with the ATM networks provided by larger institutions. As a result, a number of direct charge free networks have arisen in recent years including:

- Access Cash (managed by E-Funds)
- Allpoint (managed by ATM National)
- KeyBank (managed by KeyCorp)
- SUM (managed by NYCE)
- MoneyPass (managed by Genpass)
- Toll-Free
- Plus No Surcharge Alliance (managed by Visa USA)
- Nationwide Money (managed by Nationwide Money Services)

Membership of these networks has been wide ranging including: regional banks, credit unions, payroll card issuers, merchants and independent ATM operators.

[REDACTED]

## 6. CASHCARD'S VIEW ON THE NET PUBLIC BENEFIT

### 6.1 Direct Charging

Cashcard supports the direct charging model proposed by the AISG and believes it has a number of public benefits including the following:

- Enhanced consumer choice as cardholders are able to cancel the transaction (if desired) without incurring a fee;
- Creation of economic incentives for an expanded ATM network through the ability to differentially price ATMs in higher cost locations;
- Enhanced consumer convenience through expansion of ATM networks to provide greater availability of ATMs in remote locations and low volume convenience locations;
- Greater price competition at an ATM operator level as the ATM operator convenience fee will be disclosed on screen and cardholders will be able to exert pricing pressure on ATM operators through their ability to cancel the transaction without incurring a fee if they perceive the fee to be excessive;
- Greater transparency of fees to cardholders through unbundling and separate disclosure of the ATM operator convenience fee and foreign ATM card issuer fee;
- Greater transparency of fees received by ATM operators (previously, in many cases, interchange fees were not disclosed to ATM operators by ATM acquirers); and
- Flexibility for smaller institutions to maintain foreign ATM arrangements within their existing networks to provide their customers increased access to direct charge free ATMs (refer notes on aggregate networks below) thereby improving their competitive market position.

However, further refinements are necessary to ensure there is a net public benefit. The analysis of the United States and Canadian ATM markets shows that despite the competitive nature of these markets, direct charge fees have risen over time rather than reduced. Cashcard believes this may be attributed to the following:

- Medium to large issuers in these markets also own large ATM networks;
- In order to encourage high utilisation of their own ATM networks, issuers generally structure foreign ATM issuer transaction fees in a manner that discourages use of alternative networks (i.e. higher margins are earned on foreign ATM issuer transaction fees);
- Such discriminatory pricing of foreign ATM issuer transaction fees places IAOs (being non-issuers) at a competitive disadvantage. Even if direct charges are set at similar levels to financial institutions, transaction volumes at IAO ATMs will tend to be lower as cardholders are given pricing incentives to use their own issuer's ATM network;
- Hence, IAOs tend to locate their ATMs in convenience locations (e.g. suburban convenience stores, pubs, clubs) rather than attempting to compete on price for transactions at "high street" locations (eg. shopping malls and central business district through-the-wall sites).



Cashcard views the inability for IAOs to place significant competitive pricing pressure on financial institutions as a major reason for the increase in direct charge fee levels over time in the USA and Canada.

With respect to foreign ATM issuer fees, these appear to be extremely high in both the USA and Canada especially when consideration is given to the fact that interchange fees paid by the issuer are low in comparison to Australia. Cashcard believes the lack of competitive pricing pressure on foreign ATM issuer fees in the USA and Canada can be attributed to similar factors to that found in Australia:

- Foreign ATM issuer fees are just one component of the pricing structure for transaction accounts (i.e. along with interest rates, monthly account fees, and other forms of transaction fees such as EFTPOS);
- Transaction accounts are often bundled with other accounts such as home loans and mortgages; and
- Consumers tend to change primary banking arrangements rarely (i.e. every four to seven years) due to the significant time that must be invested in enacting such a change (e.g. the significant effort required to open/close bank accounts and change direct debit/credit arrangements).

As a result, cardholders are able to exert very little pricing pressure on foreign ATM issuer transaction fees. As evidence, the major banks currently charge \$1.50<sup>23</sup> on many transaction accounts relative to the industry average of \$1.35<sup>24</sup> in 2000, and zero as recently as 1995. Yet during this period there has been no material change in interchange fees paid by issuers.

[REDACTED]

Given the experience overseas and also the Australian experience with respect to foreign ATM issuer fees, unless some form of restriction is placed on foreign ATM issuer fees it is questionable whether competitive forces alone will be sufficient during the transition to drive down total foreign ATM transaction fees (issuer and operator) under a direct charging pricing regime. Refer Section 7.1 for Cashcard's recommendations with respect to foreign ATM issuer fees.

## **6.2 Direct Charge Free Aggregate Networks**

As outlined earlier, the AISG direct charging model permits aggregate networks such as the Cashcard Network and CUSCAL's Rediteller Network to continue to utilise intra-network interchange fees between members, provided the individual member is not a signatory to the new ATM Interchange Fee Agreement. As there is unlikely to be a new interchange fee agreement for institutions to sign under the designation process, any standards formulated by the Reserve Bank should make a similar provision for the continued operation of aggregate networks.

This flexibility will allow the Cashcard Network to establish a direct charge free network for a subset of its member base. Under this model, member ATM operators will not direct charge cardholders of other members, and will instead be paid an intra-network interchange fee. To align with the objectives of the reforms, card issuers will be required to treat any ATM transactions made by cardholders at ATMs operated by other members of the direct charge free network as "on-us" for charging purposes. This is based on the principle that the direct charge free network is a shared network. The result will be to better align cardholder fees to the cost of operating the ATMs in the network.

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<sup>23</sup> Commonwealth Bank (2004); National Australia Bank (2004); ANZ (2004); Westpac (2004) and St. George (2004).

<sup>24</sup> Reserve Bank and ACCC (2000), p. ii.



This will be a significant benefit to many members of the Cashcard Network, which tend to be smaller financial institutions (eg. regional banks, building societies, credit unions, and other small card issuers). To date, these smaller issuers have been able to take advantage of the low Cashcard Network interchange fee to provide relatively low cost foreign ATM access (e.g. by offering a number of free foreign ATM transactions). Under a “pure” direct charging model, these institutions would be at a competitive disadvantage as they would be unable to fully reimburse ATM direct charge fees incurred by cardholders due to the variability and higher cost nature of these fees.

However, participation in direct charge free networks, such as that proposed by the Cashcard Network, will enable these smaller financial institutions to offer their cardholders access to a direct charge free ATM network potentially of a similar size to that offered by the major banks. This will be in the public interest as it will:

- Improve the competitive position of these smaller card issuers by enhancing the value proposition they are able to offer their cardholders; and
- Provide the cardholders of these institutions with wider availability of low cost ATMs.

### 6.3 Access

The Cashcard Network allows new entrants to obtain low cost entry into the Australian payments system. In this regard, Cashcard has supported a number of new entrants into the ATM payments system over the last five years including:

- ATM operators: Banktech, ATM Solutions, AAT, ATM Direct, ATM Express, as well as number of networks which are now 100% owned by Cashcard (e.g. Armaguard, EBS and Direct Cash).  
[REDACTED] and
- Card issuers: ING, Members Equity, HSBC, Macquarie Bank, Rabo Bank, Bank of China and GE.

Cashcard supports inclusion of ATM access under APCA’s review of the access regime. However, Cashcard believes that the barriers to entry in the ATM payments system are significantly lower than in the EFTPOS payments system. This is highlighted by:

- The number of new entrants supported by Cashcard over the last five years (refer above);
- The significant growth in ATM numbers in recent years from 12,458 in September 2000 to 20,899<sup>25</sup>;

[REDACTED]

- Cashcard becoming an ATM acquirer in 2002, the first non Authorised Deposit-Taking Institution (ADI) to do so, demonstrating that IAOs can achieve financial institution independence when required;
- The willingness of most of the major banks (e.g. Commonwealth Bank, Westpac, ANZ and St.George), many of the regional banks (e.g. BankWest, Bank of Queensland, and Suncorp), credit union groups (e.g. CUSCAL), and non-ADIs (e.g. Cashcard / First Data, Pulse,) to sponsor new IAOs into the market;

<sup>25</sup> APCA, website: [www.apca.com.au/Public/apca01\\_live.nsf/WebPageDisplay/Stats\\_Terminals](http://www.apca.com.au/Public/apca01_live.nsf/WebPageDisplay/Stats_Terminals), June 2004.

[REDACTED]

## 7. RECOMMENDATIONS

### 7.1 Designation

Cashcard supports designation of the ATM payments system as the most efficient process for achieving the Reserve Bank's reform objectives, subject to due consideration being given to the recommendations proposed in this section.

### 7.2 Direct Charging

Cashcard supports the current direct charging model proposed by the AISG, subject to further refinements in relation to pricing as outlined below:

#### 7.2.1 ATM Issuer Fee Caps

As discussed in Section 6.1, cardholders are able to place little pricing pressure on foreign ATM issuer fees. Hence, Cashcard recommends that a cap be placed on foreign ATM issuer fees. The foreign ATM issuer fee is intended to recover issuer costs such as processing (account processing) and switching. The Joint Study found these costs to be as follows:

<b>ATM Cash Withdrawal Costs per Transaction<sup>28</sup></b>		
	<b>Range</b>	<b>Weighted Average</b>
Processing costs	\$0.02 - \$0.09	\$0.04
Switch costs	\$0.01 - \$0.05	\$0.02
Total	\$0.03 - \$0.14	\$0.06

Given, this level of costs, Cashcard proposes that a cap of \$0.15 will be sufficient to allow for an issuer margin on the transaction. This cap should also be sufficient to cover the higher costs incurred by smaller issuers.

The cap should in no way detract from competition between issuers, and Cashcard expects that the average foreign ATM issuer fee will be significantly below this level. The cap does, however, provide a benchmark as to the maximum acceptable level for fees.

Importantly, the issuer fee cap will encourage more aggressive competition by ATM operators as they compete for transactions (i.e. cardholder patronage of their ATMs) by reducing fee levels (particularly in high street, high volume, locations).

The caps should be reviewed at least every three years, or earlier if deemed appropriate.

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<sup>28</sup> Reserve Bank & ACCC (2000), p. 36.

## 7.2.2 ATM Operator Fee Caps

As discussed in Section 6.1 cardholders will be able to exert pricing pressure on ATM operators through their ability to cancel the transaction (without incurring a fee) if they perceive the fee to be excessive, and “shop around” for an ATM charging a lower fee. Therefore, it is easy to argue that caps on ATM operator convenience fees are unnecessary.

However, the implementation of direct charging may bring a wide range of new ATM operators into the market that may seek to take advantage of cardholders by charging excessive fees. Hence, Cashcard believes that a cap on ATM operator convenience fees is also appropriate during the transition.

In determining the level of cap, consideration needs to be given to the fact that ATM operating costs will vary significantly from site to site due to a number of factors:

- Location (e.g. regional and remote locations are more expensive to service);
- Transaction volumes (e.g. operating costs per transaction increase as transaction volumes decline due to the fixed nature of many costs);
- Equipment type (e.g. through-the-wall devices are more expensive than desk-top ATMs);
- Site fees (e.g. merchant rebates and site rentals will vary from site to site); and
- Method of cash replenishment (e.g. branch and merchant funded ATMs will be cheaper to operate than those replenished by cash-in-transit companies).

As a result, the cap will need to be sufficiently high to ensure that one of the major benefits of direct charging, i.e. expansion of ATM networks to provide greater availability of ATMs in remote locations and low volume convenience locations, is maintained. Cashcard proposes a cap on the ATM operator convenience fee of \$2.50.

As with the issuer fee cap, this cap should in no way detract from competition between ATM operators, and Cashcard expects that the average ATM operator convenience fee will be significantly below this level.

By way of comparison, the total issuer and operator fee cap of \$2.65 is significantly lower than the average of total issuer and operate fees charged in both the USA [REDACTED] and Canada [REDACTED]. Even taking purchasing power parity into consideration, the caps are significantly below the overseas averages for fees.

The caps should be reviewed at least every three years, or earlier if deemed appropriate.

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[REDACTED]  
[REDACTED]



### **7.2.3 Alternatives Considered**

Cashcard considered a number of alternatives to fee caps:

#### **NO REGULATION OF ATM OPERATOR AND ISSUER FEES**

As outlined in Section 6.1, Cashcard believes there is a risk of higher total cardholder fees unless some form of pricing regulation is implemented.

#### **MULTILATERALLY SET ISSUER FEE**

Unlike the credit card payments system, which has a limited number of schemes (i.e. Visa, MasterCard and Bankcard) that multilaterally determine the level of interchange fee, the ATM payments system is governed by bilateral agreements. As a result, there is no central body that currently monitors the system and determines the level of fees. Cashcard considers implementing such a system would add unnecessarily to the cost of operating the ATM payments system.

In addition, the cost structures of issuers varies dramatically based on scale, hence a fixed cardholder fee is inappropriate.

#### **MULTILATERALLY SET ATM OPERATOR FEE**

As above, Cashcard considers implementing such a system would add unnecessarily to the cost of operating the ATM payments system. In addition, a fixed ATM operator fee would eliminate two of the major benefits of direct charging:

- Pricing competition by ATM operators; and
- Expansion of ATM networks to provide greater availability of ATMs in remote locations and low volume convenience locations.

#### **MULTILATERALLY SET INTERCHANGE FEE**

As above, Cashcard considers implementing such a system would add unnecessarily to the cost of operating the ATM payments system without achieving many of the benefits of a direct charging regime.

### **7.3 Direct Charge Free Aggregate Networks**

Cashcard believes that in order to provide a net public benefit, it is essential any new direct charging regime provide for aggregate networks to continue to be allowed to operate with an intra-network interchange fee. Hence, provision needs to be made for aggregate networks such as the Cashcard Network, CUSCAL's Rediteller Network and potentially future competing networks, to retain intra-network interchange fees in order to provide direct charge fee free access to cardholders.

## **7.4 Implementation Timeframe**

Cashcard views that an ATM direct charging regime implemented in an optimal manner will be in the public interest. While the industry has been working hard to pursue voluntary reform with authorisation by the ACCC, the Australian Competition Tribunal decision to set aside the ACCC authorisation of zero EFTPOS interchange fees adds some uncertainty to successful completion of voluntary reform. Hence, Cashcard supports designation of the ATM payments system as a more efficient and timely method for achieving the ATM reform objectives.

Cashcard considers an implementation timeframe of 18 months is appropriate for implementation of a new direct charging regime due to the considerable development that must be undertaken at both a device and system host level.

## **7.5 Access**

With regards to the Reserve Bank imposing standards relating to the access regime, Cashcard is of the view that:

- The current ATM access regime situation requires minor adjustment rather than wholesale change;
- APCA is the appropriate industry body to set the technical and operational standards for the ATM payments system;
- The project to be initiated by APCA to review the access regime for both EFTPOS and ATM should mean that the imposition of standards by the Reserve Bank covering and access regime are not required; and
- Any revised access regime should enhance access but at the same time ensure that the efficiency and integrity of the current ATM payments system is not reduced in any way. That is, the standards must be sufficiently high to ensure new entrants:
  - Do not place any undue risk on the operation of the system (i.e. ensure new entrants have adequate financial backing and strong internal control and technical systems); and
  - Do not place an undue cost burden on existing players (i.e. smaller entrants should be requested to utilise the services of direct connectors or gateways until transaction volumes are sufficient to make a direct link economic for both parties).

## 8. CONCLUSION

In summary, Cashcard believes designation of the ATM payments system will be in the public interest subject to:

- Implementation of an ATM direct charging regime incorporating a zero ATM interchange fee;
- Provision for aggregate networks (e.g. the Cashcard Network and CUSCAL's Rediteller Network) to be able to continue to utilise intra-network interchange fees;
- Foreign ATM issuer fee caps of \$0.15 per transaction;
- ATM operator convenience fee caps of \$2.50 per transaction;
- Implementation timeframe of 18 months; and
- Designation occurs within 3 months.

Cashcard believes the implementation of pricing caps will promote pricing competition at both an ATM operator and issuer level driving down the total average cost of foreign ATM transactions to cardholders.

With regards to access to the ATM payments system:

- The current ATM access regime situation requires minor adjustment rather than wholesale change;
- APCA is the appropriate industry body to set the technical and operational standards for the ATM payments system;
- Any revised access regime should enhance access but at the same time ensure that the efficiency and integrity of the current ATM payments system is not reduced in any way.