

THE INTRODUCTION OF DIRECT CHARGING FOR ATMs

Introduction

On 3 March 2009, a package of reforms designed to improve competition in the Australian ATM system came into effect. Specifically, the reforms have made it easier for new providers of ATM services to enter the market and have provided ATM owners with the freedom to charge customers for the use of ATMs, reducing the risk that the ATM system might decline over time as ATM owners found it uneconomic to deploy and service machines. Furthermore, the reforms have increased the transparency of ATM fees by ensuring the fee charged by the ATM owner is displayed prior to the transaction being finalised, with the customer given the opportunity to cancel the transaction at no cost.

One element of the reforms was the removal of interchange fees that card issuers paid to ATM owners when cardholders used ATMs that did not belong to their financial institution. These fees, which had remained fixed over many years and were not subject to competitive pressure, were often passed on, with a substantial margin, by card issuers to cardholders in the form of a 'foreign fee'. With the elimination of interchange fees, the cost to card issuers when their customers use an ATM belonging to another entity has fallen substantially, reducing the need to charge 'foreign fees'.

This article provides some information on the level of direct charges and foreign fees for ATM transactions at the launch of the reforms. The Bank will continue monitoring the implementation of the reforms and provide an update later in the year.

Direct Charging

Following the reforms, an ATM owner is able to charge a cardholder directly for an ATM transaction. Where the ATM owner charges such a fee, it must be disclosed before the cardholder withdraws the cash or makes a balance enquiry, and it does not apply if the transaction is cancelled before completion. While an ATM owner could impose a direct charge on all customers (including its own if it is also a financial institution), in practice direct charges are typically only imposed on 'foreign transactions' – when a cardholder from *another* financial institution makes a withdrawal or balance enquiry.

Most ATM networks are levying flat fees across the network for cash withdrawals. Currently, there is no major variation between city and country areas, nor is there any variation by the time of day. Most ATM owners are charging a \$2.00 withdrawal fee, although one large bank is charging \$1.50, and some owners are charging as low as \$1.00 (Table 1). On the other hand, some other small independent deployers are reported to be charging as much as \$2.50.

For balance enquiries, however, there appears to be more variation in fees across institutions. Some ATM owners are charging the same fee as for cash withdrawals, while there are some examples of ATM owners not charging for balance enquiries.

Table 1: Direct Charges – Major Networks^(a)

	Cash withdrawal	Balance enquiry
ANZ	\$2.00	\$2.00
Bank of Queensland ^(b)	\$2.00	\$1.00
Bankwest	\$2.00	\$1.00
Cashcard	\$2.00	\$0.75
Cashconnect ^(c)	\$2.00	\$1.00
Commonwealth Bank	\$2.00	\$2.00
Customers	\$2.00 ^(d)	\$2.00 ^(d)
iCash	\$1.00 to \$2.00 ^(e)	\$1.00 to \$2.00 ^(e)
NAB	\$1.50	\$0.50
RediATM ^(f)	\$1.50 to \$2.00	\$0 to \$1.00
St. George	\$2.00	\$2.00
Westpac	\$2.00	\$2.00

(a) Data current as at 8 April.

(b) For own ATMs. Some Bank of Queensland branded ATMs may apply different charges.

(c) Also deploys 'branded' ATMs for other institutions which may apply different charges.

(d) Some individual cases of discounting below this level have occurred.

(e) Predominantly \$2.00.

(f) At the discretion of sub-network members, but withdrawals capped at \$2.00 and balance enquiries capped at \$1.00.

Source: ATM providers

Foreign Fees

Prior to the reforms, an interchange fee was paid by a cardholder's financial institution to the ATM owner whenever a 'foreign' ATM transaction was undertaken. The cardholder's bank often charged this fee to the cardholder, plus an additional margin, in the form of a 'foreign ATM fee'. Where charged, foreign fees were not displayed at the time of withdrawal, but would instead be debited to the cardholder's account and appear on their statement at the end of the month. The four largest banks all imposed a foreign fee of \$2.00 for a cash withdrawal and a balance enquiry. Smaller institutions charged foreign fees that varied from zero to \$2.50. The institutions that charged nothing chose to absorb the interchange fee in order to provide fee-free access to ATMs as an additional service to customers.

As part of the package of reforms, the interchange fee paid by the cardholder's financial institution has been eliminated and, in line with this, foreign fees have also fallen. Most institutions lowered their foreign fees on 3 March, when the reforms were implemented (Table 2). In some cases, including two of the major banks, foreign fees were reduced to zero, while in other cases a positive, though reduced, fee was retained.

Since then, however, many of the institutions that retained a foreign fee on 3 March have now chosen to remove it, partly in response to competitive pressure. This includes the other two major banks. While many smaller institutions also do not charge any foreign fees, and others are reviewing their policies, at the time of writing some smaller institutions continued to apply foreign fees.

Table 2: Foreign Fees – Selected Institutions

	Pre-reform	Reform (3 March)	Current ^(a)
ANZ	\$2.00	\$0	\$0
Commonwealth Bank	\$2.00	\$0	\$0
NAB	\$2.00	\$0.50	\$0
Westpac	\$2.00	\$0.25	\$0
Bank of Queensland	\$2.00	\$0	\$0
Bankwest	\$1.95	\$0.50	\$0
Bendigo Bank	\$1.50	\$0.10	\$0
Greater Building Society	\$1.50	\$0.40 ^(b)	\$0
IMB	\$2.10	\$0	\$0
Newcastle Permanent	\$1.50 ^(c)	\$1.50 ^(c)	\$0
St. George	\$2.00	\$0.25	\$0
Suncorp Metway	\$2.00	\$0	\$0

(a) Data current as at 8 April.

(b) Balance enquiries charged at \$0.30. The first \$2.50 in fees waived each month and rebates applied based on deposits/loans with the building society.

(c) Balance enquiries charged at \$1.25. Fee-free transactions provided based on deposits/loans with the building society.

Source: financial institutions

Total Cost

Most cardholders are able to continue to use ATMs owned by their own institution without charge. For transactions made at ATMs owned by other entities, the reforms have generally led to \$2.00 foreign fees being replaced with \$2.00 direct charges. By shopping around, however, many cardholders can now have access to cheaper foreign ATM transactions than prior to the reforms; a cash withdrawal, for example, can now be obtained for \$1.50 or even \$1.00 from some ATMs belonging to independent deployers. Customers of institutions that have retained foreign fees, however, now typically face higher charges for using a foreign ATM than prior to the reforms.

In addition, customers of financial institutions that previously provided access to all ATMs free of charge are now likely to have access to fewer ATMs fee-free, although it is still possible for those institutions to provide a fee-free network comparable with the major banks (see below).

Special Arrangements for Smaller Institutions

In order to allow small financial institutions with very few ATMs to provide fee-free access to a larger network, the reform package permitted smaller institutions to pay interchange fees in two circumstances.

First, a small institution can arrange for its customers to have access to a large institution's ATM network free of direct charges or at a discounted direct charge. A number of institutions with small ATM networks have entered into such arrangements with major banks, including several agreements that were reached just prior to the implementation of the reforms.

Second, small institutions are able to band together to form a 'sub-network', allowing their customers access to all ATMs within that network free of direct charges. There are currently

two sub-networks, operated by Cuscal (the RediATM network) and Cashcard (whose fee-free network is known as FeeSmart). Financial institutions that are members of these sub-networks pay each other a common interchange fee.

As noted above, prior to the reforms, some financial institutions chose to absorb the interchange fees they paid on behalf of their customers, thereby providing their customers with access to *all* ATMs free of charge. While some of these institutions have chosen to re-examine their product offerings in the light of the reforms, they are still able to offer fee-free access to a large number of ATMs, even *all* ATMs, if they choose to do so. To the extent that small institutions enter into arrangements with larger networks such as those described above, they will be able to offer their customers fee-free access to a large network of ATMs by absorbing interchange fees. Institutions can also choose to rebate direct charges levied on their cardholders at foreign ATMs, or rebate charges for a certain number of foreign transactions. One financial institution currently offers such a product to its customers, providing fee-free access to any ATM by rebating all direct charges. But other institutions have chosen to adjust their product offerings, for example by expanding their own ATM networks, with their customers now paying for withdrawals from ATMs they may have previously accessed for free.

Monitoring of the New ATM Arrangements

In order to gauge the impact of the ATM reforms, the Reserve Bank is stepping up its monitoring of the ATM industry. In addition to the data on the number and value of ATM withdrawals currently published in the Reserve Bank *Bulletin*, the Bank has also begun collection of a range of information on direct charges, foreign fees and ATM deployment from industry participants. Key elements of this information will be made publicly available in the future.

Further Information

Further details about the reforms discussed above can be found on the Reserve Bank's website at <<http://www.rba.gov.au/PaymentsSystem/Reforms/ATMFeeReforms/index.html>>. ↗