

PRIVATE and CONFIDENTIAL

8 July 2004

Dr John Veale
Head of Payments Policy
Reserve Bank of Australia
65 Martin Place
Sydney NSW 2000

Dear John

Re: Proposed Designation of the ATM Payment System under the Payments Systems (Regulation) Act (PSRA)

Background

Today, ATMs are the primary cash access mechanism for Australian consumers. ATMs are a key distribution channel for retail financial institutions and the market practice is that many organisations bundle the costs of providing ATM access as part of the provision of deposit holding facilities or credit accounts.

Many institutions also apply ATM transaction charges either on every transaction, or on transactions above a stated threshold.

HSBC is a relatively new participant in the retail banking market in Australia and today we offer a comprehensive range of financial services to consumers.

Many of these facilities are accessible via HSBC's small proprietary network of 27 ATMs, supplemented by services, such as cash withdrawals from most other ATMs.

Current market practice is for institutions to absorb some or all ATM transaction costs into the underlying bank products through bilateral commercial arrangements around ATM payments.

In order to ensure our products are competitive, HSBC currently provides fee free banking options to our customers

Policy change

HSBC supports the Reserve Bank's policy objectives under PSRA of payments system stability and efficient (or transparent) pricing.

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Whilst the ‘unbundling’ of ATM services (i.e. ‘Direct Charging’) for transactions would promote the interests of companies offering standalone ATM services, it does not recognise the very strong position of larger industry participants and may unreasonably disadvantage financial institutions with limited distribution networks, including HSBC.

Under the changes proposed by the ATM Industry Steering Group, the practice of absorbing or bundling ATM transaction costs into financial services will remain available to the major banks in Australia that all have significant proprietary ATM networks.

However, for smaller or newer organisations competing for retail financial services customers, there should also be a continuing opportunity to offer ‘bundled’ pricing in order to be competitive in providing ATM access to financial accounts, whilst still delivering on the RBA’s objective of pricing transparency.

A Potential Solution

HSBC agrees that actual cost of ATM services should be disclosed at the time of transacting and therefore mechanisms should be put in place to make the cost of the ATM transaction clear to consumers at the point of use.

However, in order to deliver competitive efficiency and not to favour the network externalities possessed by larger institutions, the future policy regime should allow absorption of these costs on a unilateral basis. That being, HSBC should be able to absorb these costs, should we decide.

In this way, organisations like HSBC that do not maintain large ATM networks can continue to offer competitive deposit accounts and other card-accessed facilities.

HSBC welcomes the opportunity for a discussion around the issues raised in this letter during the Reserve Bank’s consultation process in respect to designation. Please contact me at 02-9006 5007 should you wish to arrange such discussions.

Yours sincerely

Rahn Wood
Senior Manager Direct Financial Services