



ATM Industry Steering Group Direct Charging

Ms Michele Bullock
Reserve Bank of Australia
65 Martin Place
Sydney, NSW 2000

Dear Ms Bullock

Thank you for agreeing to meet with representatives of the ATM Industry Steering Group (AISG) at 11.30am on Tuesday, 4 May 2004.

The AISG has been working together for some time to develop a Direct Charging arrangement that would adequately respond to the concerns raised in the RBA/ACCC Joint Study into Debit and Credit Card Schemes in Australia. Given the complexity of the ATM industry and the diversity of the institutions represented on the AISG, the development of the voluntary reform has been a lengthy and challenging process.

The AISG is acutely aware of the RBA's interest in the progress achieved with the voluntary reforms. I am pleased to be able to advise you that the AISG has now unanimously agreed on a voluntary reform model. The draft Agreement and Submission to the ACCC seeking authorisation of the reforms are near completion.

Detailed below is a summary of the proposed reform model to underpin our discussions with you tomorrow.

1. ATM Direct Charging Model

The AISG has reached consensus on a direct charging model. It is essentially a reflection of the bilateral ATM interchange fee arrangements that exist today.

Subject to ACCC authorisation, parties to the proposed Interchange Fee Agreement are to agree to reduce interchange fees on ATM transactions to zero. ATM operators who are parties to the proposed Agreement will be able to direct charge cardholders from other institutions for ATM transactions. Card issuers may also charge a fee to cardholders for ATM transactions as a result of the 'unbundling' of the current Foreign ATM Fee charged by issuers. Any direct charge applied by an ATM operator will be disclosed to the cardholder at the time of transaction. This charge, and any card issuer fee, will be identified on the cardholder's statement of account consistent with the EFT Code of Conduct.

2. Arrangements for Small Financial Institutions

The AISG remains committed to the principles of direct charging reform. However, we have considered at length the impact of the proposed reforms on smaller financial institutions. The AISG has endeavoured to balance the positive competitive and public benefits provided by small aggregate networks whilst protecting the competitive incentives inherent in the direct charging model.

The AISG believes that it has developed a direct charging model that has clear public benefits, while addressing the concerns raised in the Joint Study and the needs of smaller institutions.

The proposed Interchange Fee Agreement will apply to all ATM transactions that are processed under any ATM Interchange Agreement between the signatories to the application for authorisation. The proposed agreement does not apply to pricing arrangements for ATM transactions involving two institutions that are not parties to the proposed Agreement (eg transactions between members of the Rediteller network or the Cashcard network, who are not parties to the agreement).

Each of the major banks, together with the most of the regional banks, CUSCAL, Cashcard and Pulse are expected to be parties to the proposed agreement. Most of the credit union members of CUSCAL's Rediteller network and most of Cashcard's members are not expected to be parties. ATMs deployed by Cashcard (as opposed to Cashcard members) are expected to be part of the direct charge model. Please see the attached matrix for further detail.

We note that those institutions not becoming parties to the authorisation agreement are still expected to be applicants to the submission and support the direct charging reform in advocacy before the ACCC during its consideration of the authorisation application.

3. Summary of Expected Impact of Agreement

Based on the expected signatories to the proposed Interchange Fee Agreement, the AISG has estimated that over 97% of transactions currently subject to interchange fee arrangements will be subject to the proposed direct charging regime.

Accordingly, the AISG fully anticipates that the reforms will deliver greater fee transparency and disclosure to customers, closer alignment of fees to costs, increased competition between ATM operators and card issuers and enhanced consumer choice and convenience. We also believe our proposal embraces diversity within the financial sector.

4. Access

The AISG appreciates that access is a companion issue to the reform of the ATM payment system. As you would be aware, the AISG has sought APCA's assistance to undertake a project to develop conditions of entry, which would facilitate access to the ATM network in the context of a direct charging regime for foreign ATM transactions. The primary objective of the work is to develop a practicable and equitable regime to facilitate effective access to ATM networks for ATM operators and card issuers.

We would anticipate scheduling another meeting with you prior to lodging an application with the ACCC.

I trust this document serves as a useful starting point for our meeting. I look forward to discussing the AISG's proposal with you in more detail.

Yours sincerely

Gavin Napier
Chairman, AISG

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Issuer/Acquirer Relationships - Proposed Direct Charging Model RBA July 2004

Interested party consulted	Signing Deed Poll	Card Issuer	Acquirer/ ATM Operator											
			ANZ	CBA	National Australia Bank	Westpac	St George	Suncorp	Bank of Queensland	CUSCAL	Cashcard deployed machines	Cashcard	Pulse	
		Approximate number of ATMs	1400	3100	1550	2050	1800	300	820	1500	5250	1070	2390	
(yes/no appropriate box)														
Yes	Yes			DC	DC	DC	DC	DC	DC	DC	DC	DC	DC	DC
n/a	Yes	CBA	DC		DC	DC	DC	DC	DC	DC	DC	DC	DC	DC
Yes	Yes	National Australia Bank	DC	DC		DC	DC	DC	DC	DC	DC	DC	DC	DC
Yes	Yes	Banks Westpac	DC	DC	DC		DC	DC	DC	DC	DC	DC	DC	DC
Yes	Yes	St George	DC	DC	DC	DC		DC	DC	DC	DC	DC	DC	DC
Yes	Yes	Suncorp	DC	DC	DC	DC	DC		DC	DC	DC	DC	DC	DC
Yes	Yes	Bank of Queensland	DC	DC	DC	DC	DC	DC		DC	DC	DC	DC	DC
Yes	Yes	CUSCAL network	DC	DC	DC	DC	DC	DC	DC		DC	DC	DC	DC
Yes	Yes	ASL	n/a	n/a	n/a	DC	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Yes	Yes	Cashcard	DC	DC	DC	DC	DC	DC	DC	DC	DC	DC	DC	DC
Yes	*	Cashcard	DC	DC	DC	n/a	DC	DC	DC	DC	DC		DC	DC

Legend:	
n/a	Not applicable
DC	Direct Charging
I/C	Interchange
	Indicates own bank customer (so on us transaction)
	Treated as on us transaction within network (I/C fees may apply)

Total number of ATMs in Australia (all banks, credit unions)
Cuscal network
Cashcard network (excluding own deployed)

****List of building societies:**

- Armidale Building Society
- Bass & Equity
- Greater Building Society
- Heritage Building Society
- Home Building Society
- Hume Building Society
- IMB Ltd
- Territory Building Society
- Mackay Permanent
- Maitland Mutual
- Newcastle Permanent
- Pioneer Permanent
- The Rock
- Wide Bay Australia