



# **SUBMISSION TO THE RESERVE BANK OF AUSTRALIA**

## **Designation of the ATM Payments System**

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# 1. EXECUTIVE SUMMARY

The Reserve Bank of Australia (RBA) designated the ATM system on 10 December 2008, supported by a draft access regime specifically focussed on the following key components:

- Price of Access
- Interchange Fees
- Transparency to cardholders; and
- Implementation 3<sup>rd</sup> March 2009.

The RBA has called for submissions on the particulars of the draft access regime in its Consultation Paper issued in December 2008 (Consultation Paper).

Cashcard is a member of the First Data group of companies and operates the Cashcard Network (see background). Details of First Data and the global payment processing services the group provides are set out in Attachment A. This submission is made primarily by Cashcard Australia Limited (Cashcard), as owner and operator of the Cashcard Network, but also on behalf of other First Data entities providing ATM device driving, switching and payment processing services in Australia. References to Cashcard are references to each First Data entity that trades in Australia.

Cashcard supports the designation of the ATM system by the RBA as this will enable the smooth transition and implementation of direct charging for ATM usage and increased competition in the ATM industry that the industry has been working towards for 18 months.

Cashcard considers that participants in the ATM System providing clearing and settlement services to other participants through an agency or sponsor arrangement in the ATM System should be able to charge for the provision of those services on an ongoing basis.

Cashcard supports the carve-outs proposed by the RBA to the setting of interchange fees at zero.

Cashcard supports the recognition by the RBA of the pro-competitive benefit of the continuance of sub-network arrangements within the ATM System.

Cashcard supports the 3 March 2009 implementation date for direct charging as mandated by the RBA.

# 2. DOCUMENT SCOPE

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

- Price of Access
- Interchange Fees
- Transparency to cardholders
- Implementation 3<sup>rd</sup> March 2009

## **3. BACKGROUND**

The Cashcard Network is a network of ATMs comprising ATMs owned and operated by Cashcard and ATMs owned and operated by financial institutions in the Australian market. Through the Cashcard Network, Cashcard provides the following for network participants:

- technical interconnectivity to Cashcard and other participants in the ATM System;
- reciprocal ATM access, negotiated by Cashcard for itself and network participants, to other participants in the ATM System; and
- clearing and settlement services through Cashcard's exchange settlement account (ESA) maintained with the RBA.

First Data entities provide device driving, payment processing, monitoring and reporting services to 175 institutions in Australia processing over 1.37 billion transactions in Australia annually, making the First Data group one of Australia's leading payment processing service providers.

### **3.1 Cashcard**

#### **3.1.1 Overview**

Cashcard provides high volume payment services across the entire consumer electronic payments spectrum, including ATM and EFTPOS, Direct Entry, BPAY, Telephone and Internet payments.

#### **3.1.2 History**

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 Consumer Electronic Clearing System operated by APCA, utilising its ESA.

#### **3.1.3 Operator of the Cashcard Sub - Network**

The Cashcard Network was launched in 1982 by a number of building societies and has since grown to be a key 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 issuing organisations).

The Cashcard Network offers an efficient access mechanism to Australia's payments system without the need for the institution to negotiate and develop individual interchange agreements with each participant in the ATM System. Each member acquires ATM and/or EFTPOS transactions in its own right and utilises the Cashcard Network to provide access to ATMs and EFTPOS terminals for its cardholders beyond just those owned by the institution, which are often regionally based.

Cashcard, as the network operator, determines the interchange fee that applies to transactions within the network and settles transactions within the network.

Cashcard and other First Data entities maintain a physical network of interchange links with both financial and non-financial institutions to provide ATM/EFTPOS transaction switching services for a

range of institutions, a large number of which are members of the Cashcard Network. Members of the Cashcard Network are free to use any switch (third party or in-house).

Through its ESA obtained in 2002, Cashcard also provides clearing and settlement services on behalf of most of its members with institutions outside the network, within the terms of the ESA.

### **3.1.4 Independent ATM Operator**

Cashcard commenced deployment of ATMs in 1999 with the installation of ATMs at petrol stations owned by a large fuel company. With the subsequent acquisitions of additional ATM networks, 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 cost 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, and obtained an ESA. Cashcard acts as an ATM acquirer predominantly for its own base of ATMs, but also for some small independent ATM operators.

### **3.1.6 Industry developments**

In mid 2004 the ATM Industry Steering Group (AISG) proposed a direct charging model, which set interchange fees between signatories to zero and allowed ATM operators to directly charge cardholders a fee for ATM usage. Direct charging provides a number of public benefits including: enhanced consumer choice, creation of economic incentives for expansion of the ATM network leading to 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 was 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. Cashcard considers that sub-networks are an essential component as they allow smaller financial institutions to remain competitive with larger institutions by providing their cardholders with continued low cost access to a broader base of ATMs.

Since May 2007, the industry, through the Australian Payments Clearing Association (APCA), has been working through technical and legal issues necessary to implement a refined version of the AISG package. This included an access code developed through APCA, ATM owners charging cardholders directly at the ATM and zero interchange fees between direct connectors with sub-networks retaining the ability to charge multilateral interchange fees.

## **4. RESPONSE TO DESIGNATION**

Cashcard believes that the ATM access regime to be implemented and managed through an access company and which details the technical and operational standards within the ATM system is an adequate structure to meet the objectives of designation and maintain the efficiency and integrity of the ATM system.

Cashcard acknowledges the recognition by the RBA of the pro-competitive benefit of the continuance of sub-network arrangements within the ATM System.

## **4.1 Cost of Access**

Cashcard accepts the fees for direct connection proposed by the RBA to be fixed at \$76,700 (GST excl.) as per the Consultation Paper. Cashcard accepts that the cost of connection will involve only the process to facilitate the standard connectivity between the parties and will not remove the capability for a party to charge for additional work effort associated with the completion of this access arrangement.

Cashcard does not agree that the provision of direct clearing / settlement arrangements should be provided with no fee to access seekers or to existing participants for which clearing and settlement agency services are provided. Whilst it is acknowledged that the provision of this arrangement should only be provided to those that meet the qualification criteria in the access code, there is still considerable effort that is required to enable an arrangement to be established and constantly monitored to both maintain the stability and integrity of the ATM system and meet the clearing and settlement rules. This effort includes

- Clearing and reconciliation services
- daily settlement and balance services for use of the ESA
- Cost and administration associated with maintaining sufficient funds within the ESA
- Provision of reporting services to enable balancing and clearing to be completed.

Cashcard believes there should be a further review of the actual costs for the provision of these services with an acknowledgement within the draft access regime that charges can be made for those services and to enable greater transparency of these service offerings. It is Cashcard's belief that the costs associated with the provision of these services should be aligned with transaction volumes and actual overheads and should not be related to one-off access fees. Cashcard would welcome further discussion and review with the RBA on this subject.

Further, Cashcard considers that the provision of clearing and settlement services within the conditions on which an ESA is granted, with the attendant daily ESA condition monitoring undertaken by the RBA for the purposes of the appropriate operation of ESAs, will continue to support the stability and integrity of the ATM system. However, Cashcard does not agree with the comment in the Consultation Paper that "clearing and settlement service is fundamental banking business...provided by financial institutions", as entities other than financial institutions currently participate in clearing and settlement (eg National Collator and switches participate in clearing and settlement functions without being financial institutions) and the eligibility criteria for access seekers does not require an access seeker to be a financial institution. This underpins the ability for access seeker to be represented through a clearing and settlement agent and underscores the potential for that clearing and settlement agent to incur expenses for providing those services to an access seeker, which expenses should be able to be recouped. Without that ability, an access seeker is obtaining a service for free which, if it were to undertake the activity itself, it would have to fund as part of its ordinary cost of business.

## **4.2 Interchange Fees**

Cashcard supports the removal of interchange fees from the ATM system, except in the following circumstances:

- Sub-network multi-lateral arrangements
- One-way issuer access arrangements

As highlighted in the Consultation Paper, many smaller card issuing institutions (mainly credit unions, building societies and foreign banks) have joined sub-networks over the years in an

endeavour to provide similar ATM access to their cardholders to that available through major banks. This allows those smaller institutions to compete on a level footing.

With the advent of direct charging, it is imperative that the ability to continue to charge interchange fees remains intact so that members of sub-networks can treat the sub-network ATMs as their own and provide their cardholders with the convenience of ATM access enjoyed by customers of the major banks.

The ability to maintain sub network arrangements will ensure a level playing field for issuers that are not able to provide national ATM network access to cardholders and ensure that cardholders will not be disadvantaged by their choice of issuer. An issuer will also have the ability to further enhance this access if they wish by entering into a one-way arrangement.

Cashcard supports the RBA's decision with respect to interchange fees, including specifically the carve-out of sub-networks from the provision setting interchange fees to zero.

Additionally, Cashcard agrees that direct charging fees will enable cardholders 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.

### ***4.3 Transparency to Cardholders***

Cashcard supports the information detailed within the Consultation Paper in respect of transparency to cardholders arising from direct charging.

### ***4.4 Implementation 3<sup>rd</sup> March 2009***

Cashcard supports the date proposed by the RBA for implementation of this regime and will continue to work with APCA and the industry on the agreed implementation date of 3<sup>rd</sup> March 2009.

## **Annexure “A”**

### **About First Data**

First Data Corp. is a leading provider of electronic commerce and payment solutions for businesses worldwide. With operations in 38 countries, First Data serves over 5 million merchant locations, 1,900 card issuers and their customers. We power the global economy by making it easy, fast and secure for people and businesses around the world to buy goods and services using virtually any form of payment. The company's portfolio of services and solutions includes merchant transaction processing services; credit, debit, private-label, gift, payroll and other prepaid card offerings; fraud protection and authentication solutions; receivables management solutions; electronic check acceptance services through TeleCheck; as well as Internet commerce, loyalty and mobile payment solutions. The company's STAR Network offers PIN-secured debit acceptance at 2.1 million ATM and retail locations. For more information, visit [www.firstdata.com](http://www.firstdata.com).