

The ATM System since the 2009 Reforms

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The past seven years have seen two major forces affecting the ATM system. Reforms to pricing arrangements in 2009 have had a number of effects, including establishing an environment that has encouraged a rise in ATM numbers. More recently, the ATM industry has been affected by a shift in consumer preferences towards payment cards, which has seen a decline in cash use and a resulting fall in the demand for ATM services. This article examines how activity and pricing in the ATM system have evolved since 2009. It finds that while ATM transactions are declining, ATM numbers at this stage continue to increase overall. ATM direct charges have risen slightly in real terms, but the number of withdrawals on which a fee is charged has fallen significantly.

Introduction

The evolution of the ATM system in Australia in recent years has been shaped by two distinct forces. First, reforms to the ATM industry were introduced in 2009 which resulted in a new pricing structure that allowed ATM owners to set their own prices (‘direct charges’) for ATM transactions for the first time. This replaced highly inflexible and opaque interchange fee arrangements negotiated between the main industry participants. The reforms led to the entry of many new ATM owners into the industry, an increase in ATM numbers and the placement of ATMs in locations where they would not previously have been commercially viable. It also meant that the price of ATM transactions could change more readily over time.

The second force affecting the industry is a general decline in the use of cash for payments, leading to a decline in the demand for ATM services. This is likely to become the dominant force on the industry in the years to come.

This article examines how the ATM system has responded to these two forces to date, firstly by examining trends in ATM transactions and numbers. It then considers how ATM direct charges have

evolved since the 2009 reforms. This is based on a comprehensive survey of the ATM industry conducted by the Reserve Bank in 2015 – the first of its kind since 2010.¹

The article finds that ATM use is now in decline, even though overall ATM numbers continue to rise. Direct charges, on average, have risen slightly in real terms but the amount spent on ATM fees has fallen, reflecting declines in both the number of withdrawals and the proportion of withdrawals on which a direct charge is paid.

Background

Australians benefit from a universal ATM system whereby they can transact at any Australian ATM, regardless of whether the ATM is owned by their own financial institution or another party. This arrangement is supported by fees to allow the owner of the ATM to be remunerated for providing ATM services to another institution’s customers; financial

¹ In July–August 2015, the Reserve Bank conducted its third survey of the ATM industry (covering around 97 per cent of all ATMs). The Bank’s first survey was conducted in early 2010 to review the effects of the move to direct charging after a year of operation (Filipovski and Flood 2010). A subsequent survey was conducted in late 2010–early 2011 as part of the joint Australian Treasury and Reserve Bank ATM Taskforce examining competition and transparency, and issues affecting Indigenous communities in relation to ATMs (RBA and Treasury 2011a, 2011b); this survey was also discussed in Flood, Hancock and Smith (2011).

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institutions typically do not levy an explicit fee on their own cardholders for use of their own ATMs.

The nature of ATM fees changed in 2009 when a set of reforms was introduced by the Australian payments industry, with support from the Reserve Bank. Prior to the reforms, when a consumer made a transaction at an ATM that was not owned by their own financial institution (a 'foreign transaction'), their financial institution paid an 'interchange fee' of around \$1.00 to the ATM owner. The financial institution then passed that fee (and often more) on to their customer as a 'foreign fee' that was visible to the cardholder only on their subsequent monthly statement. By 2009, a foreign fee of \$2.00 was common, double the typical interchange fee.

The Reserve Bank was concerned about the inflexibility and lack of transparency of these fee arrangements and in 2009 interchange fees and foreign fees were removed. Instead, ATM owners were allowed to charge cardholders directly for making an ATM withdrawal, provided that the direct charge was disclosed clearly to the cardholder and the cardholder was given an opportunity to cancel the transaction (at no charge). The flexibility in pricing that this brought made it possible for owners to place ATMs in high-cost or low-volume locations where the interchange fee might previously have been insufficient to make an ATM commercially viable (e.g. regional and remote locations, and temporary events such as festivals). It has also made it possible for ATM owners to adjust prices over time.

Market Structure

The Australian ATM system consists of two distinct types of ATM owners – financial institutions and independent deployers. Financial institutions maintain networks of ATMs largely as a service to their own cardholders. Because cardholders can typically transact on their own institution's ATMs without paying a fee, a financial institution that has a larger ATM network may be more attractive to depositors. The fact that financial institutions provide ATMs as part of a bundled account

service to their customers means that they do not necessarily need to cover the cost of their ATM fleets through ATM fees alone.

Independent ATM deployers operate standalone ATM networks, unaffiliated with financial institutions. They do not have their own cardholder base and must therefore rely solely on the fees generated by ATM transactions. They typically charge for all transactions.

Because the 2009 reforms significantly changed the economics of ATMs for independent deployers, there has been much more volatility in this segment of the market than among financial institutions. In the years following the introduction of the direct charging reforms, a large number of independent deployers (at least several dozen) entered the ATM industry. However, following this initial period of expansion there has been some consolidation. A number of smaller players have exited the industry, while the largest independent deployer, DC Payments, has expanded, in part through the acquisition of fleets of smaller deployers such as EzeATM, GRG and OneCash.

In 2015, around 55 per cent of Australian ATMs were independently owned, up from 47 per cent at the start of 2010. This change in share reflects much stronger growth in independently owned ATMs than financial institution ATMs. The two largest independent networks – DC Payments and Cashcard – are now significantly larger than any of the financial institution networks, though most cardholders have access to a network of several thousand ATMs provided free of charge by their own financial institution (Table 1).

Because a large proportion of ATM transactions at financial institution ATMs are fee-free, those ATMs tend to generate much higher transaction volumes than independently owned ATMs. Even though financial institution ATMs make up less than half the national fleet, 75 per cent of all ATM withdrawals and 90 per cent of balance enquiries were conducted at ATMs owned by financial institutions in 2014/15 (Table 2). This equates to around

130 transactions per machine per day at financial institution ATMs, compared with an average of 30 per day at independently owned machines. Other things equal, this implies higher costs per transaction for independent ATM deployers, given the large fixed costs associated with ATM purchase and installation.²

Table 1: Number of ATMs – Major Networks^(a)
July 2015

Network	Number
DC Payments	7 251
Cashcard	4 691
Commonwealth Bank and Bankwest	3 822
RediATM (including NAB)	3 089
Westpac and St. George	3 055
ANZ	2 606
CashConnect	1 857
Next Payments	1 080
Bendigo Bank	868
Suncorp	681

(a) A small number of ATMs that carry financial institutions' branding, but are owned or operated by an independent deployer, are recorded in data for independent deployers; other similar arrangements are recorded under financial institutions

Source: RBA

Trends in ATM Numbers and Transactions

The 2009 reforms encouraged an increase in the number of ATMs, as financial institutions sought to ensure that they had a network that was attractive to depositors and independent deployers took advantage of pricing flexibility to find new ATM sites. Growth in overall ATM numbers has continued; according to the Australian Payments Clearing Association (APCA) there were 31 661 ATMs in Australia in December 2015, an increase of around 20 per cent since 2008 (Graph 1). This represents over 1 300 ATMs per million inhabitants, which is relatively high by international standards (Graph 2).

The growth in ATM numbers stands in contrast to ATM transactions, which have declined in recent years. The latter reflects two factors.

First, the increased transparency of ATM fees following the 2009 reforms led to a marked change in cardholder behaviour. Cardholders reduced their overall use of ATMs, with the number of withdrawals falling by 7 per cent in the first year (Graph 3). They also began making greater use of their own banks' ATMs in preference to ATMs where they would pay a direct charge.³

Table 2: ATM Activity by Type of Owner^(a)

	Number of ATMs July 2015	Number of withdrawals 2014/15 (millions)	Number of balance enquiries 2014/15 (millions)	Transactions per machine per day
Financial institutions	13 876	510.4	139.1	128
<i>Per cent of total</i>	45	75	90	
Independent deployers	17 295	168.9	15.3	29
<i>Per cent of total</i>	55	25	10	
Total	31 171	679.3	154.4	73

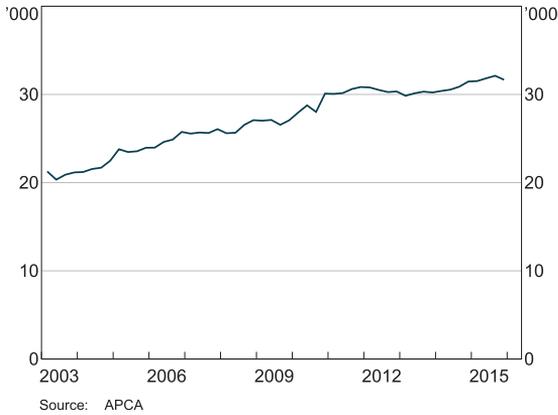
(a) A small number of ATMs that carry financial institutions' branding, but are owned or operated by an independent deployer, are recorded in data for independent deployers; other similar arrangements are recorded under financial institutions

Source: RBA

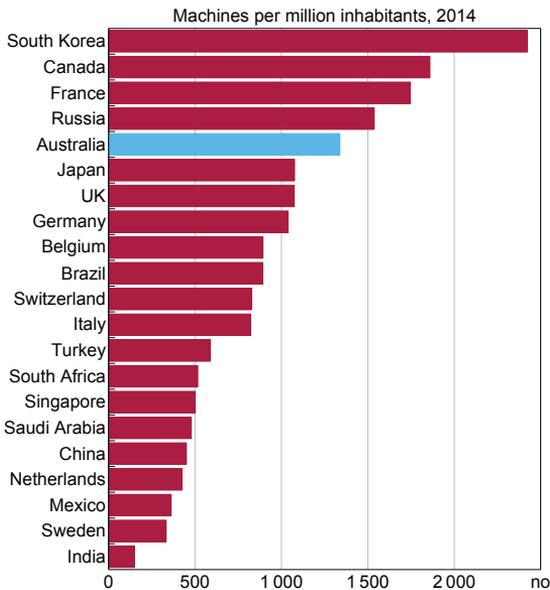
2 These may be offset to a degree by the fact that independent deployers tend to install less sophisticated, and therefore lower-cost, machines.

3 In the year following the reforms, the number of 'foreign' withdrawals fell by around 20 per cent, though this underestimates the shift in behaviour; cardholders also moved to using foreign ATMs that could be accessed free of charge under commercial arrangements between the cardholder's financial institution and an ATM owner.

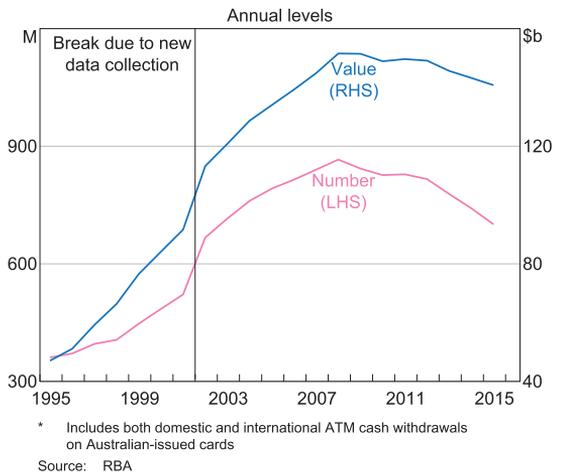
Graph 1
Number of ATMs in Australia



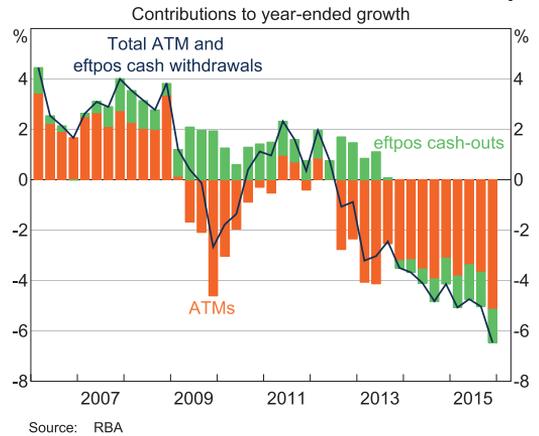
Graph 2
Number of ATMs



Graph 3
ATM Withdrawals*



Graph 4
Number of Cash Withdrawals – ATM and eftpos



established at this time have largely become entrenched and, if anything, have become more marked over time.

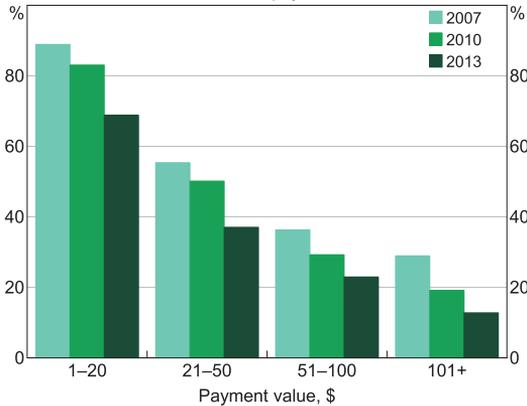
It appears that some of the fall in ATM withdrawals at this time was offset by increased use of eftpos cash-out, which is generally free to cardholders (Graph 4). This increased by around 10 per cent in the two years following the reforms, with cash-out's share of cash withdrawals increasing from around 20 per cent prior to the reforms to 26 per cent currently. The patterns of cardholder behaviour

The second factor affecting ATM transactions has become prominent more recently. The use of cash is now declining, with consumers opting to use electronic forms of payment – particularly payment cards. The Bank's 2013 Consumer Payments Use Survey indicated that consumer cash payments fell from 69 per cent of payments in 2007 to 47 per cent in 2013, declining across all payment values (Ossolinski, Lam and Emery 2014) (Graph 5).

Graph 5

Cash Use by Payment Size

Per cent of number of payments of that size



Source: RBA surveys, conducted by Colmar Brunton and Roy Morgan Research

It is likely that this trend has accelerated since 2013, with the widespread adoption of contactless card payments and the increasing use of cards for lower-value transactions. As might be expected, reduced cash use has resulted in a reduction in demand for ATM services. Since 2013, the number and value of ATM cash withdrawals have declined by an average of around 4 per cent and 2 per cent respectively each year (Graph 3). The number of withdrawals is now 25 per cent below its 2008 peak. Confirming the effect of reduced cash use, eftpos cash-outs have also declined since 2013 and are now 15 per cent below their peak (Graph 6).

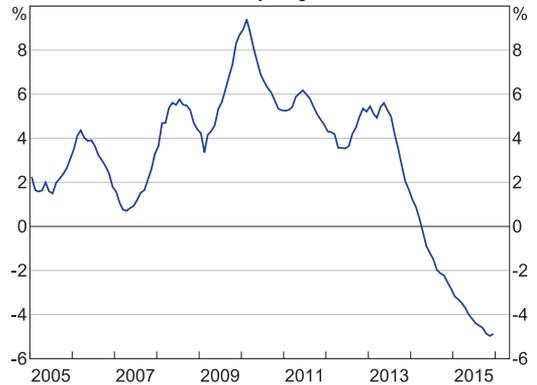
Declining cash use will be a challenge for the ATM industry. In combination with rising ATM numbers, it has resulted in a fall in withdrawals per ATM from around 75 per day in 2010, to 60 per day in 2015 (Graph 7). This is placing upward pressure on costs per transaction and may affect pricing and future ATM deployment decisions.⁴ The recent rises in ATM numbers are unlikely to continue longer term and numbers ultimately can be expected to decline with falling cash use.

⁴ Though this must be weighed against other factors, including falling costs of communications and ATM purchase and maintenance offset by rising site rental costs. Owners of ATMs may also take into account the strength of demand for their respective sites; e.g. it may be easier to pass on cost increases for ATMs in locations where alternative cash withdrawal methods or electronic payments are not readily available.

Graph 6

Number of eftpos Cash-outs

Year-on-year growth

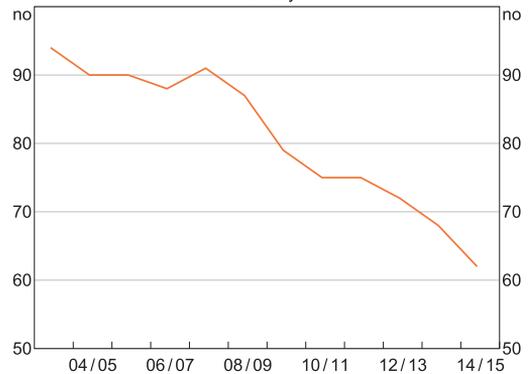


Source: RBA

Graph 7

Withdrawals per ATM*

Per day



* Annual transaction volumes, with the number of ATMs as at June
Sources: APCA; RBA

ATM Direct Charges

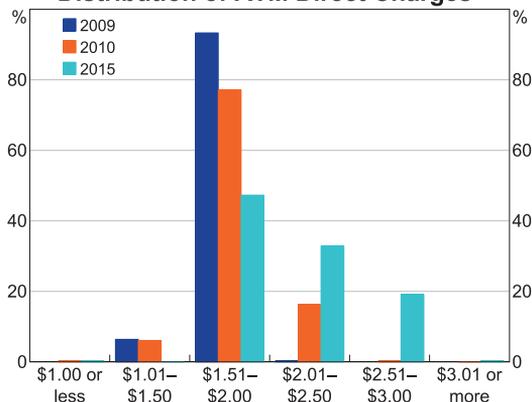
There are no regular, comprehensive data on how ATM owners have set ATM direct charges for foreign withdrawals or the proportion of withdrawals on which a charge is paid. However, the Reserve Bank from time to time conducts a survey of the industry to determine how charges and cardholder behaviour are evolving. The most recent of these was conducted in 2015 and shows a small increase in the average direct charge in real terms, but a reduction in fees paid overall resulting from fewer charged transactions.

Average direct charges for withdrawals and balance enquiries have risen since the previous survey in 2010. The average direct charge for a foreign withdrawal in July 2015 was \$2.33, up from \$2.04 in 2010 and \$1.96 in 2009 (Table 3).⁵ While this represents a rise of around 19 per cent in nominal terms since the first direct charges were introduced in 2009, in real terms the increase was only 2 per cent. As discussed, this has occurred in an environment where there has been a shift away from the use of cash for payments and a decline in ATM withdrawals.

The increase in average direct charges for withdrawals has been driven primarily by independently owned ATMs. Direct charges on these ATMs now average \$2.57, up from \$2.00 in 2009, an increase of around 29 per cent. Among financial institution ATMs, the average foreign withdrawal fee is \$2.02. This is consistent with pre-reform foreign fees, but higher than the \$1.93 average in 2009, reflecting National Australia Bank's decision to increase fees by 50 cents in 2013 to match the \$2.00 charged by the other major banks.

These changes are reflected in the distribution of ATM fees (Graph 8). In 2009, over 90 per cent of ATMs charged \$2.00 for a withdrawal with very few ATMs above that level. While in 2015 \$2.00 remains the most common withdrawal charge, close to one-third of ATMs now charge either \$2.20 or \$2.50, and close to one-fifth charge from \$2.75 to \$2.90.

Graph 8
Distribution of ATM Direct Charges*



* 2009 data are for March, 2010 for December and 2015 for July
Source: RBA

The range of independent ATM withdrawal fees recorded in the most recent survey is zero to \$5.00, with 99 per cent of fees in the \$2.00 to \$3.00 range.⁶ For banks, the range of fees is \$2.00 to \$2.50, with over 95 per cent levying a fee of \$2.00.

Only a small number of ATMs are at the very high or very low end of the range. For instance, 102 ATMs (0.3 per cent of an overall sample of 31 000 ATMs) charged more than \$3.00 in 2015. Twenty-five ATMs charge the highest fee recorded of \$5.00; deployers report that these tend to be located in adult venues. On the other hand, around 90 ATMs do not levy a direct charge on either withdrawals or balance enquiries.

Table 3: ATM Direct Charges^(a)
Average across ATMs, \$

	Withdrawals			Balance enquiries		
	2009	2010	2015	2009	2010	2015
Financial institutions	1.93	1.94	2.02	1.61	1.68	2.01
Independent deployers	2.00	2.15	2.57	1.42	1.96	2.26
Total	1.96	2.04	2.33	1.52	1.82	2.15

(a) A small number of ATMs that carry financial institutions' branding, but are owned or operated by an independent deployer, are recorded in data for independent deployers; other similar arrangements are recorded under financial institutions; 2009 data are for March of that year, 2010 for December and 2015 for July
Source: RBA

5 The averages quoted here, unless specified otherwise, are in terms of averages across ATMs, not across ATM transactions.

6 The Reserve Bank has also been made aware of a small number of independently owned ATMs utilising a 'variable pricing' model. These are not included in the survey data.

Average direct charges on balance enquiries are lower than withdrawals, at \$2.15, but they have risen at a somewhat faster rate – 63 cents or 41 per cent since 2009. In this case, financial institutions and independent deployers have both contributed to the increase. Two-thirds of balance enquiry fees remain at \$2.00 or less, compared with close to 100 per cent in 2010.

While there has been a modest rise in average direct charges on foreign ATM transactions since 2010, the number of ATM transactions on which a fee is charged has been declining. Estimates from the latest survey indicate that a direct charge was paid on around 28 per cent of all withdrawals in 2014/15, down from around 33 per cent in early 2010.⁷ In absolute terms, the number of charged withdrawals declined by around 20 per cent between 2010 and 2014/15, suggesting that, in total, cardholders paid around \$60 million less for withdrawals than in 2010. Combining ATM withdrawals and eftpos cash-outs, around 80 per cent of all cash withdrawals do not attract a fee.

The decrease in charged transactions is likely to have been even more marked for balance enquiries, where many cardholders now have ready access to account information via internet and mobile banking. In 2014/15, less than 20 per cent of all ATM transactions were balance enquiries, but most of these were on ATMs provided by the cardholder's own financial institution. Overall, a direct charge was paid on 10 per cent of balance enquiries.

Conclusion

In the seven years since direct charging at ATMs was introduced, Australia has seen greater availability of ATM services, resulting from strong growth in ATM numbers. Average direct charges on foreign withdrawals have risen over that time – but at a rate only marginally higher than inflation. The number of withdrawals on which a direct charge

is paid has declined by around 20 per cent since 2010, implying a \$60 million reduction in fees paid. Seventy-two per cent of ATM withdrawals (and 80 per cent of ATM and eftpos withdrawals combined) now do not incur a fee.

The period ahead may be challenging for the ATM industry, with cash use and ATM transactions now clearly declining. To date, independent deployers have responded to rising costs per transaction by raising charges, but this approach might in itself encourage changed behaviour by some consumers, including the use of electronic payments in preference to incurring ATM fees. With innovation in electronic payments likely to continue at pace and online commerce growing, these pressures could intensify in the coming years. ✎

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⁷ This is broadly consistent with the findings of the Bank's most recent Consumer Payments Use Survey, which found a decrease of around 8 percentage points between 2010 and 2013.

