



# ATM Industry Steering Group Direct Charging

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09 July 2004

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

Dear Dr Veale

We refer to the request of the Reserve Bank of Australia (**Reserve Bank**) for views in relation to whether designation of an ATM payment system under the *Payment Systems (Regulation) Act (PSRA)* would be in the public interest, as contained in the media release of 11 June 2004. Thank you for the opportunity to comment. This letter sets out the views of the ATM Industry Steering Group (AISG) in relation to ATMs.

## 1. Background and Context

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, development of voluntary reform has been a lengthy and challenging process.

In the context of seeking an ACCC authorisation the AISG believes that it has developed a Direct Charging proposal that has clear public benefits. In addition, it addresses the concerns raised in the Joint Study and the needs of specified smaller financial institutions.

The AISG remains committed to the principles of Direct Charging reform. We have gathered a substantial body of information in relation to understanding the ATM business in Australia. This has been applied to assess and scope implementation of Direct Charging to replace ATM interchange fees for foreign ATM transactions.

This submission incorporates a number of documents that describe the Australian ATM system and the AISG Direct Charging proposal that should be useful during the Reserve Bank's consultation process. Documents are referenced through the text.

Please refer to the attached Discussion Paper provided previously to the Reserve Bank and description of the Australian ATM system for additional background detail.

## 2. Guiding Principles

The AISG has actively led and continues to participate in voluntary reform initiatives in relation to ATMs. The industry process is pending the Reserve Bank's consideration of the merits or otherwise of designation and its ensuing form. In the AISG's view there appears to be opportunity to pursue joint or co-regulatory approaches that potentially involve a combination of regulation and voluntary development and implementation in respect of ATM reform.

The AISG has also been active in seeking the involvement of the Australian Payments Clearing Association Limited (**APCA**) in an ATM access reform project in a Direct Charging environment. This initiative adopts a voluntary reform path, which in the view of the AISG, is preferable for industry participants and in the public interest.

While the ATM industry has pursued a voluntary reform process to date, we acknowledge there is now a need to give legal effect to the Direct Charging proposal that would ensure business certainty and the integrity of the ATM network. AISG believes that, in the event the Reserve Bank decides to designate the ATM payment system, that AISG's work to date would be a logical and worthwhile starting point for consultation.

## 3. Proposed Industry Reforms

In the context of seeking an ACCC authorisation, the AISG has developed a compromise model for Direct Charging. It is essentially a reflection of the bilateral ATM interchange arrangements insofar as the networks and interconnections that exist today. The key difference is the transparency of pricing to Cardholders.

Parties to the proposed arrangement would reduce interchange fees on ATM transactions to zero. ATM Operators would be able to direct charge Cardholders from other institutions for Foreign ATM Transactions. Card Issuers would also be able to levy a fee on their Cardholders for Foreign ATM Transactions. The effect of the changes would be to unbundle the existing Foreign ATM Fee levied by Card Issuers. Any direct charge applied by an ATM Operator would be disclosed to the Cardholder at the time of transaction, with an option to cancel. This charge and any card issuer fee, will be identified on the cardholder's statement of account consistent with the EFT Code of Conduct.

Please refer to the attached letter provided previously to the Reserve Bank explaining the reform proposal in greater detail.

## 4. Summary of Expected Impact of Proposed Reforms

Based on the anticipated participants in a reformed market, the AISG has estimated that over 97 per cent of transactions currently subject to interchange fee arrangements would be subject to Direct Charging. The remainder would be included in the proposed aggregate network arrangements.

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.

Please refer to the research summary provided previously to the Reserve Bank for additional information.

## 5. Implementation

There is a substantial quantum of work and industry co-operation required to implement Direct Charging while maintaining the integrity of the ATM interchange system. Detailed business requirements and a high-level timeline estimate, including key deliverable dates have been developed by AISG. The plan is cognisant of other industry security initiatives that are planned for implementation in a similar timeframe and assumes a co-ordinated industry approach to implementation.

Please refer to the attached implementation document for additional information.

## 6. Scope of Potential Designation

The bilateral ATM interchange arrangements that underpin interconnection and transaction interchange across ATM networks together with the supporting infrastructure are fundamental and complex aspects of the present environment that need to be considered to achieve effective ATM reform. Should the Reserve Bank consider designation to be in the public interest, the scope development will consequently need to devote detailed consideration to these aspects so that it establishes a sustainable basis for ATM reform.

The proprietary ATM networks are separately owned and operated by a variety of market participants and supported by bilateral interchange agreements that establish technical, operational and commercial terms, including standards concerning authorisation, clearing, settlement and interchange fee arrangements. These arrangements support a basic set of ATM transactions - cash withdrawal, balance inquiry and declined. This set of transaction types will also need to form the scope of regulatory attention.

The infrastructure supporting the proprietary ATM networks has multiple uses beyond ATM transactions (eg EFTPOS and credit card) and in the prevailing technical, commercial and legal structure, it is impossible to identify a system either in commercial terms, regulation, scheme rules or physical/logical networks. The structure broadly comprises:

- ◆ many networks of ATM devices deployed to process secure card based transactions;
- ◆ internal and external Issuer and Acquirer processing systems that have primarily been established to process proprietary transactions; and
- ◆ telecommunications to facilitate communications links between the Acquiring and Issuing participants to each transaction.

In addition to the aforementioned aspects and issues, the Australian Payments and Clearing Association (APCA) have established standards relating to the processing and settlement of ATM transactions. They are administered by APCA through the Consumer Electronic Clearing System (**CECS**) regulations and procedures. There is no mandatory APCA membership requirement (ie standards apply voluntarily). Consequently, there are presently participants in the ATM market who are not APCA members nor captured by the relevant regulations and procedures.

## 7. Access

The learnings that have emerged from the APCA process to address EFTPOS access suggest potential for a comparable ATM access project, drawing from this experience. It could well be resolved by a voluntary co-operative industry arrangement and subsequently implemented within a TPA regulatory framework subject to the appropriate consultation processes.

The AISG appreciates that access is a companion issue to the reform of the ATM payment system. 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 Direct Charging 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, Acquirers and Card Issuers.

Please refer to the attached letters to APCA concerning a review of access arrangements.

We trust this document serves as a useful starting point for the consultation process. We look forward to discussing the AISG's proposal with the Reserve Bank in more detail. The AISG remains committed to working with the Reserve Bank to achieve a successful outcome in advancing ATM interchange fee reform.

Yours sincerely

Gavin Napier  
Chairman, AISG

Commonwealth Bank of Australia  
Retail Banking Services  
Infrastructure Services  
ATM Network  
Level 3  
175 Pitt Street  
Sydney NSW 1155  
Australia

Telephone 61 02 969 66735  
Facsimile 61 02 969 66750  
Mobile 612 0414 886 315  
E-mail [napierga@cba.com.au](mailto:napierga@cba.com.au)