



16 January 2009

Ms Michele Bullock  
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Dear Michele

## **PROPOSED ATM ACCESS REGIME**

National Australia Bank Limited (“NAB”) welcomes the opportunity to comment on the proposed ATM Access Regime to be imposed by the Reserve Bank of Australia (RBA) under Section 12 of the Payment Systems (Regulation) Act 1998, as set out in “Access Regime for the ATM System: A Consultation Document” issued December 2008. NAB has been an active participant in the reform process through its participation in industry working groups established by the Australian Payments Clearing Association Limited (APCA).

NAB is supportive of the general thrust of the reforms to the ATM system, namely to improve access and price transparency. As you know, it is our view that a voluntary approach to reform was preferable, however this was not possible given potential legal issues arising under the Trade Practices Act 1974 with respect to the multilateral setting of interchange and the fixing of connection charges.

### **ATM Interchange Fees**

NAB supports the reduction in interchange fees to zero for Direct Connectors and the ability for ATM operators to impose a charge for the provision of services at the ATM directly on customers, at the time of transacting.

NAB also accepts the RBA’s position that retention of interchange within subnetworks will assist competition and agrees that such interchange is only set multilaterally. Furthermore, we are supportive of the requirement for transparency of membership rules.

### **Connection Charges**

In setting a cap on connection charges, NAB acknowledges the RBA has followed the approach taken in the EFTPOS Access Regime. Whilst NAB is supportive of improving access, we believe there needs to be better balance between existing Access Providers and Access Seekers, with the proposed cap of \$76,700 insufficiently recognising the current costs to existing Access Providers in establishing connections. It also results in all but one Access Provider providing a significant subsidy to Access

Seekers. A more appropriate methodology to set the cap would be the average cost, which is more representative of the true costs of Access Providers while still ensuring an incentive for Access Providers to reduce their connection costs.

We note the RBAs view that a direct clearing and settlement arrangement should be available at no cost to any party which is a member of the ATM system. However, this view, we believe, is flawed. A party may participate in the ATM system through either direct connections with other participants or indirectly via a switch. Where a party establishes a direct connection, a direct clearing and settlement arrangement is part of the direct connection.

However, where a party indirectly connects to another via a switch yet wishes for a direct arrangement for clearing and settlement, systems development, configuration and testing is still necessary. While the direct connection with the switch may be in place, this only facilitates routing of transaction messages. It does not automatically enable recognition of transactions and value for settlement purposes. The Forensic Review of the APCA ATM access connection costs survey, undertaken in September 2008, a copy which was forwarded to the RBA, further illustrates this point. We submit that an Access Provider must be entitled to receive appropriate compensation for its costs in establishing a direct clearing and settlement arrangement. This should, like the cost of a Direct Connection, be based upon the average cost of establishing such an arrangement. At a minimum, however, the methodology used to calculate any cap should be the same used in determining the cap for a Direct Connection.

### **The Future Evolution of the ATM and EFTPOS Systems**

We note the RBAs views on the future evolution of not only the ATM system infrastructure but also the EFTPOS system infrastructure. NAB is not averse to investigating alternative access mechanisms and is engaged, through APCA, in the current industry process investigating a Community of Interest Network (COIN) for telecommunications. We do not, however, see the need for a central switch and are not supportive of any move in that direction.

Prior to any implementation of a COIN, a number of substantial issues must be addressed including:

- Ownership and governance – the ownership and governance structure of an industry COIN needs to recognise the multiplicity of participants in the EFTPOS and ATM systems and enable the industry to effectively manage current operations and future development. Ownership of an industry COIN by a telecommunications provider leaves the industry exposed to risks on costs, performance and innovation.
- Cost sharing – an appropriate cost model needs to be developed which recognises commercial reality, including differences in the efficiency of participants, and avoids any subsidies being built into the system.
- Competition – competitive pressure must be built into all levels of any new architecture. This means there must be, at a minimum, 2 providers of COINs,

with the ability for all COINs to seamlessly interface to each other. The ease with which a participant can move between COIN providers is also an important consideration in the architecture design.

- Migration – while new connections might be established via the COIN, a clear migration path for all existing connections needs to be established.

We would be more than pleased to discuss our position further with you should you require.

Yours sincerely



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