

Bank of Queensland Limited

Submission to

Reserve Bank of Australia

ATM System Designation

8 July 2004

Background

In response to issues raised in the Reserve Bank Australia (RBA) / Australian Competition and Consumer Commission (ACCC) Study into Debit and Credit Card Schemes in Australia (Joint Study) released in October 2000, the principal participants involved in the ATM industry set about to develop the basis for an ATM interchange reform process that addressed the Joint Study issues.

Two conclusions of the Joint Study were that ATM interchange fees had changed little over time and that interchange fees represented a substantial mark-up on the costs of providing ATM services. To address these issues, the Joint Study proposed that an alternative to ATM interchange fees be developed and floated the concept of Direct Charging whereby the ATM operator would levy a fee for providing the service directly to the cardholder.

Industry Working Group

An industry working group researched various Direct Charging models and in March 2003 released a discussion paper titled "Direct Charging for 'Foreign' Automatic Teller Machine (ATM) Transactions in Australia" based on key objectives for reform and sought comment from interested stakeholders as to the proposed reforms. Only one response to the discussion paper was received, that is the response from the Australian Consumers' Association (ACA). The ACA was sceptical that the anticipated benefits of Direct Charging would be realised by consumers (an opinion that seemed to be generally based on overseas experiences) and also raised concerns regarding the impact on smaller/regional institutions and their customers.

The international experience with ATM surcharging coexisting with interchange fees is not directly transferable to the proposed Australian Direct Charging model where bilateral interchange fees were proposed to be abolished. Also, the potential impact of the reforms on smaller financial institutions received considerable focus to ensure that they would be able to develop competitive responses to reduce any possible negative impact of the reforms on their customers.

Following further consideration, the industry reached consensus on a Direct Charging model and was preparing to lodge an Authorisation Application at the time the Australian Competition Tribunal decision on EFTPOS Interchange Fee reforms was handed down. The Tribunal decision highlighted the uncertainty around pursuing the Authorisation process for the ATM reforms and caused the Authorisation Application to be delayed pending further consideration of the process, including the moves by the RBA to consider designation of the ATM system.

Developments since the Joint Study

In the time since the Joint Study was completed there have been significant developments within the ATM industry which has seen the majority of growth in ATM numbers come from the networks of 3rd party mono-line deployers rather than the traditional financial institution ATM networks. The business model supporting 3rd party deployer networks differs significantly from that of the financial institution networks. Their networks generally comprise lower cost ATMs sited in convenience locations that attract lower transaction volumes, making the site economics a key consideration. These networks now account for roughly half the installed ATMs in Australia and will comprise a significant competitive force to the traditional bank ATM networks under the Direct Charging reform proposals. Ensuring that the reforms do not deter these networks from being able to operate in this competitive role will be a major consideration going forward.

Access Regime

The working group also considered the question of access to the ATM system and referred the matter to the Australian Payments Clearing Association (APCA) to be considered in light of the work that APCA was undertaking in relation to EFTPOS access. The ability for new participants to gain access to the ATM system is seen as being important to ensure that potential reform benefits for consumers are maximised through effective competition particularly in relation to the level of ATM Direct Charges and any Issuer ATM Fees. However, access should be sensibly balanced against maintaining the network integrity that underpins consumer confidence in the ATM system.

Bank of Queensland believes that the introduction of a robust ATM access regime will be important in ensuring the correct competitive outcome from Direct Charging and that the groundwork undertaken by APCA on EFTPOS access should be the basis for developing an industry driven access regime. A key factor in any access regime will be maintaining the ubiquitous card access arrangements that currently exists across the ATM networks.

The case For Designation of the ATM system

The industry working group has completed a significant amount of work to bring the proposed ATM Direct Charging arrangements to a point where consensus has been reached between participants on a range of difficult competitive issues. In addition, there has been significant work undertaken to identify issues relating to implementing Direct Charging at all levels within the network ie. ATM Owner systems, Acquirer systems, Issuer systems and also at interchange level.

Bank of Queensland has supported the self-regulatory approach to ATM reform and would have preferred that this process was completed, however, we acknowledge that the proposed ACCC Authorisation could prove to be a difficult and time-consuming process that may produce a less than optimal outcome, particularly in light of the EFTPOS experience.

We consider that a possible benefit of designation of the ATM system would be to provide the required level of certainty to reforms necessary for all participants to have confidence in their future ATM network business decisions. In considering the detail of how designation could be applied to the ATM system, we regard the industry developed Direct Charging model and the implementation schedules as being a sound basis on which designation could be based.

Summary

Bank of Queensland supports the RBA decision to consider designation of the ATM system. Should it be considered in the public interest to designate the system, Bank of Queensland would appreciate the opportunity to present its views as to the scope of designation, the standards that might be applied and Access arrangements to apply to the system.