

16th January 2009

Michele Bullock
Head of Payments Policy
Reserve Bank of Australia
Sydney NSW 2001

Dear Michelle,

Access Regime for the ATM System

Thank you for the opportunity to provide comments on the Reserve Bank of Australia's proposed "Access Regime for the ATM system".

Westpac is committed to payments systems reform, and believes that it is in the public's interest that the ATM system is (a) accessible to new entrants whilst respecting the investment made by the incumbents, (b) enables customers to make informed decisions based on clear and transparent pricing signals, and (c) continues to innovate at a sustainable pace whilst ensuring the existing standards of interoperability, security and reliability are commercially maintained.

Cap on Direct Connection Costs

The proposed Access Regime places a cap of \$76,700 on the cost of Direct Connection. This cap is based on the lowest cost reported by APCA members in 2008, together with the assumption that the variation in cost is a factor of efficiency, rather than a factor of complexity and scale of operations.

Westpac believes that the 'lowest cost' approach proposed in the regime is biased towards Access Seekers, and requires all Access Providers (excluding one) to subsidise new entrants. While accepting that the concept of a cap may provide some incentive for access providers to become more efficient in the provision of access, Westpac believes that complexity and scale of operations are factors which influence cost, and that adopting an 'average cost' approach would better balance the need for cost certainty by Access Seekers, and the need for a truer representation of the cost providing access for Access Providers.

No charge for direct clearing and settling

The proposed Access Regime places a 'zero' cap on the cost of establishing Direct Clearing and Settlement services. Westpac does not believe this approach is appropriate as it does not recognise (a) the significant testing effort which is expended to ensure that the ATM system is robust and error free for the cardholders, or (b) the complexity of separating and re-establishing Direct Clearing and Settlement service for an Access Seeker who may already be catered for within existing settlement arrangements.

The costs associated with establishing Direct Clearing and Settlement services are inherent in Direct Connections as well as Direct Clearing and Settlement services. Westpac believes that the 'average cost' approach we support for Direct Connections should also be adopted for the establishment of Direct Clearing and Settlement services.

Elimination of Foreign Fees

Westpac notes that the Reserve Bank is of the view that foreign fees should be eliminated following the introduction of Direct Charging. The underlying premise of Direct Charging is, and always has been, that the current foreign ATM fee be disaggregated into its' two base fees, and that the Issuer and the Acquirer remain able to charge their respective fees. This is fundamental in sending appropriate price signals to customers.

It is reasonable to send pricing signals to customers about costs when a foreign ATM is used, and there are numerous costs which remain following the removal of the interchange fee. These costs include managing disputed transactions, customer complaints, settlement, security, and the multitude of bilateral connections and other technology required to maintain a robust network. Many of these costs are exacerbated due to the increasing use of low quality ATMs being introduced into the payment system.

Interchange Fees

The proposed Access Regime requires that no interchange fees be paid between participants in the ATM system except in some special circumstances. Westpac believes that this approach may be unnecessarily prescriptive.

The proposed Access Regime ensures that the Access Seeker always has the option of Direct Charging, and therefore enables both the Access Seeker and Access Provider to more freely and equally negotiate. Given this environment, prohibiting interchange between Direct Connectors may prevent the emergence of new and innovative business models. If the requirements of notification and transparency are met, then Westpac sees no reason why interchange between Direct Connectors should be expressly prohibited.

Future Evolution of the ATM system.

The Reserve Bank assumes in its proposal that the Access Code should be obsolete by March 2010 as the result of a more access-friendly infrastructure model being implemented, either by the industry or as the result of regulatory intervention, and as such no recalculation of the cap is required.

Westpac believes that (a) the Reserve Bank's consideration of playing a more active role in the access model is unwarranted, and (b) its approach to reviewing the cap is too restrictive.

Firstly, the concerns of the Reserve Bank regarding the access model for the ATM and EFTPOS system are unfounded, as there is significant interest and commitment in the payments community regarding the adoption of updated infrastructure. It is important to recognise that investment occurs during the natural business cycle at the point where it is both cost effective and required as the result of replacement or new business events.

This fundamental philosophy has seen the ATM system thrive and has facilitated a dynamic ATM marketplace over the last decade. A recent example of this is the investment of both Westpac and Commonwealth Bank in replacing their legacy bilateral communications with a Community Of Interest Network (COIN), which has been implemented with a view to enabling single-point access.

Secondly, Westpac believes the Reserve Bank's 'obsolescence' date of March 2010 for the Access Code is counterproductive. An Access Seeker faced with the choice between investing in multiple Direct Connections under the Access Code during 2009, and potentially achieving the same outcome with single connection as soon as 2010 is likely to delay their plans, and thereby discourage activity under the Access Code and put at risk the objectives of the reform.

A more pragmatic approach would be to reassess the cap on a two-yearly cycle to ensure that the needs of both Access Seekers and Access Providers are represented. While single-point infrastructure is already emerging, it is unlikely that it will be leveraged by all Access Providers at the same point in time given competing investment priorities, and significant investments in the current infrastructure.

If you have any questions, please call me on 02 8253 1343 or by e-mail: hwendt@westpac.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Harry Wendt', written over a light grey rectangular background.

Harry Wendt
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