



**THE PRICE OF CHOICE AND CONVENIENCE**  
*HOW EXCESSIVE GOVERNMENT REGULATION CAN DESTROY  
COMPETITION ON ATM FEES: A SMALL AUSTRALIAN INDEPENDENT  
ATM OPERATOR'S PERSPECTIVE*

**AUSTRALIAN ATM INSIDER REPORT No. 1**

ISSN 1838-9503

Dr Alexander Lambevski  
Director, Mandrake.ATM  
Sydney, March 2011

**Disclaimer, acknowledgments and copyright**

The views expressed here are solely those of the author and directors of Mandrake.ATM. We are grateful to Mike Skopal from the Pilbara Group for his contribution with the costing of ATM transactions.

© **Mandrake.ATM 2011**, ISSN 1838-9503

Apart from fair dealing for the purposes of research, study, criticism or review, and only as permitted under relevant Australian copyright laws, this publication may only be reproduced, stored or transmitted in any form or by any means, with the prior permission of the publisher, Mandrake.ATM.

## Executive summary

There is no coherent case that direct ATM fees in Australia are a problem. The perceived need to regulate ATM fees arises from fundamental misunderstanding of the nature and economics of the Australian ATM system.

Many Australian ATM users mistakenly believe that the cash sitting in every ATM they might potentially access is 'their' money and resent paying a fee to access 'their' money wherever they might be.

The money sitting in the ATM is actually someone else's money, and only becomes the ATM user's cash after he or she enters into a transaction requesting a fee for accessing one's money or account balance in recognition of the costs of the device, device insurance, cashing, device maintenance, electricity, electronic communications and switching. Resentment, which is borne out of an absurd perception of the ATM system, is what is driving much of the opposition to the current regime of direct ATM charges.

The cost of ATM transactions in reality is much higher than the old RBA figure of 74c often quoted by proponents of reforms of ATM fees. In two of the most typical business models in the ATM industry that we analyse here the cost is between \$1.79 to \$2.10 (for more detailed costings please see pp. 10-14).

The cost of managing an ATM in a low to medium volume location is high and any attempt to abolish fees for balance inquiries and cap fees for cash withdrawals will result in a massive reduction in ATM machines around Australia.

This is clearly illustrated by one model used by Mandrake.ATM which shows the figures of an ATM machine placed in a smaller shop and cash being provided by the shop owner. The shop owner also is paid 80 cents per transaction to cover his or her costs for maintaining the cash levels and providing shop space and electricity for the ATM.

Merchant-cashed model (over 5 years)			
	Capital cost	Monthly amortisation of cost over 5 years	Cost per withdrawal (500 Transactions per month)
Capital Cost (mid range lobby style)	\$10,000.00	\$166.67	\$0.33
Staging and installation	\$500.00	\$8.33	\$0.02
Cost of sale or placement	\$1,000.00	\$16.67	\$0.03
Signage	\$250.00	\$4.17	\$0.01
Freight charges to location	\$250.00	\$4.17	\$0.01
Shipping Insurance	\$15.00	\$0.25	\$0.00
Merchant commission/cost of cashing			\$0.80
Insurance against theft & damage		\$25.00	\$0.05
Maintenance & repairs		\$240.00	\$0.48
Communications		\$150.00	\$0.30
Costs of disputed transactions		\$25.00	\$0.05
Receipt Paper		\$10.00	\$0.02
<b>Total cost per transaction</b>			<b>\$2.10</b>

While proponents of reforms of ATM fees as exemplified by a recent policy brief published by the the Australia Institute and Choice (Fear 2011) claim that ATM operators keep ATM fees artificially high, the figures provided in this report show how this view does not square with the economic reality of the Australian ATM market. It is precisely fierce competition between independent ATM operators and banks that is keeping ATM fees artificially low around \$2 per transaction.

### *Implications of proposed changes in ATM fees*

The proposals to abolish fees for balance inquiries and cap charges for cash withdrawals threatens the widespread availability, and viability, of the Australian ATM network by removing incentives for ATM operators to maintain and continuously invest in innovating the system. The proposals by the Greens and consumer group Choice, if they were to become law, would skew the ATM market to such an extreme degree that they would completely destroy the 'competitive incentives that govern the numerous interrelated components of' (Smith et al. 2008: 43) the Australian ATM network. It is quite possible that the Australian ATM network, under the proposed regime of ATM charges, would dwindle to pre-1999 levels, hurting every participant in ATM network transactions:

- cardholders would no longer have convenient access to cash;
- card issuing banks would no longer have such an extensive network of ATMs where their cards are accepted;
- companies like Visa and MasterCard would not have access to as many ATM locations as possible;
- merchants would have to accept a drastic decrease in amount of cash spent on their premises due to unavailability of easy access to cash to their customers;
- non-bank ATM operators would no longer be in business and lose considerable money that has been spent building up their business.

History is full of examples of failures of excessive government regulation of markets leading to 'shortages exacerbated by degraded incentives to invest in new capacity, excessive administrative costs, opportunities to game the system, etc.' (Smith et al. 2008: 44). In the more complex setting of the networked ATM industry, 'we should expect that the failures of legislatively mandated price reductions [and mandated free services like balance inquiries] would be recognized even more readily' (Smith et al. 2008: 44).

Australian consumers already have access to cash and balance inquiries which is well below cost of providing these services at many ATM locations throughout Australia. The current system of direct ATM charges generally balances the incentives of all participants - cardholders, banks and credit unions, merchants as providers of cash, other cash providers, independent ATM operators and switching companies - in ATM network transactions to use, maintain and improve the ATM system. Given that Australian consumers spent an average of just \$0.84 cents a week on ATM fees (ABS 2010, also quoted in Fear 2011: 14), the deregulated direct ATM fees are a small price to pay for the widespread availability of the ATM system and the immense benefits of speedy and convenient access to cash it brings to millions of Australian consumers everyday.

## Introduction

In March 2009, the Reserve Bank of Australia (RBA) introduced a new regulatory environment regarding charges for ATM transactions designed to increase competition in the sector. This was achieved by

- removing high barriers to entrance of new independent providers of ATM services and;
- increased transparency in ATM transactions by abolishing the indirect interchange ATM fees thus allowing ATM owners to charge directly for cash withdrawals and balance inquiries.

According to the RBA, the regulatory reforms of ATM fees 'have been meeting with their objectives' (Filipovski and Flood 2011).

Prior to the 2009 RBA reforms, Australia had one of, if not the, most regulated system of interchange ATM fees in the developed world (US Government Accountability Office 2008: 30). The old system of fixed interchange fees set in bilateral agreements between banks and independent ATM operators grossly favoured banks. While independent ATM operators invested millions of dollars in extending access to cash and balance inquiries to bank customers throughout Australia, banks, without spending any money on this extended infrastructure, continued to scoop half of the interchange ATM fee. In the mean time independent ATM operators could hardly cover the costs of the hardware (ATMs), cashing, and communications required to provide convenient access to basic financial services to bank customers if they were operating ATMs in low to medium transaction volume locations. The only economically viable ATM locations for independent ATM operators prior to the 2009 reforms were high volume locations which had over 1500 transactions a month per ATM. These were locations already filled by bank ATMs and early independent entrants to the market after the first wave of deregulation in 1999. The RBA was right to be concerned that unless independent ATM operators were allowed to charge directly, there would be a 'significant risk that the number of ATMs in Australia would decline over time, as non-bank owners of ATMs found it unprofitable to deploy and service machines' (RBA 2009). This evaluation is amply corroborated by the trials of our own company, Mandrake.ATM, which entered the ATM market in 2004.

Two years on, the RBA was justified in its prediction that the reforms would 'help ensure [the] continued widespread availability of ATMs by creating incentives to deploy them in a wide variety of locations, providing consumers with choice and convenience" (RBA 2011). The number of ATM machines has gone up nationally by approximately 1500, increasing the national ATM fleet by another 6 percent (Fear 2011: 9). Half of these additional machines are being provided by independent ATM operators. We believe that most of the growth in the independent ATM market in the last 2 years has taken place in low to medium transaction volume locations. These machines are often found in rural, regional, and remote locations (Filipovski and Flood 2010), where there is limited or no access to local bank branches or an ATM. The deployment of ATM machines to such locations would not have been financially viable for independent ATM operators before the 2009 reforms.

However, the current growth of the independent ATM industry, and the benefits that Australian consumers reap from it through ready access to cash at so many venues and locations, will be put under serious threat if current legislative proposals by the Greens and consumer group Choice for capping ATM fees for cash withdrawals and the complete

abolition of fees for balance inquiries became law. We think that the proposed changes are unreasonable, economically irresponsible, and exceedingly unfair to independent (non-bank) providers of ATM services.

The first aim of this ATM insider report is to closely scrutinise many of the basic erroneous assumptions in a policy brief by Josh Fear titled *The Price of Disloyalty: Why Competition Has Failed to Lower ATM Fees*, published in February 2011 by the Australia Institute and consumer protection group Choice, and expose it as wishful thinking on multiple levels. The report had wide media coverage and Greens' MP Adam Bandt stated that it would use some of its recommendations in his banking reform bill (Zapone 2011). Considering that the Greens as the main legislative proponents of ATM fee reforms will assume the balance of power in the Australian Senate in a few months, and their reliance on what we consider to be a fundamentally flawed research as exemplified by the mentioned policy brief, it is important that its analysis, factual errors and recommendations are subjected to a critical scrutiny from someone in the independent ATM sector in order to ensure a far more objective and economically responsible public debate on ATM fees.

Given the non-existence of any publicly available reliable data regarding the actual costs of ATM services provided by independent ATM operators, the second aim of this insider report is to reveal to the Australian public, the media, industry observers, and regulators the hard facts about the costs of providing ATM services as an independent ATM business and thus debunk the highly exaggerated and sensationalist media stories about the high profit margins in the independent ATM sector, which are then used to justify calls for capping of ATM fees and the abolition of fees for balance inquiries.

Considering the significant investment of private capital in extending the Australian ATM network, the high costs of providing ATM services and the enormous financial risks that ATM owners solely bear without any public funding, it is unreasonable in a free market economy to expect that independent ATM operators should provide free or capped ATM services to ATM users regardless of the real, and often widely differing, costs of providing these services at different locations.

The initial target of the Greens' proposed reforms in ATM charges were bank ATMs. However, the target seems to have been now extended to include ATMs owned by individuals and private companies. As an independent ATM operator, we fear that the hidden agenda behind the proposed legislation is either the nationalisation or complete destruction of the non-bank ATM sector. The introduction of such a restrictive regime of ATM charges would remove any incentive for independent ATM owners, particularly those with smaller ATM fleets consisting of low to medium transaction volumes, to stay in business. This will defeat the RBA's intention of ensuring adequate and open competition within the sector.

Major banks in turn will be in the position to recoup the real costs of providing ATM services by shifting the direct ATM fee to a panoply of fees they charge for various financial services they provide. Needless to say, that without competition from a strong independent ATM sector, Australian consumers will be the real losers. They can forget about choice and convenience regarding access to cash withdrawals and balance inquiries 24/7 at almost every Australian pub, club, supermarket, shopping centre, or convenience store, and they should also expect a steady increase in hidden bank ATM charges.

The opposition to the current system of ATM charges is based more on superficial rather than solid understanding of the economics of the Australian ATM system as a whole, particularly of its independent sector. At the core of this superficial understanding is the misguided, and economically unsustainable, belief that ATM services should be considered as a type of an essential social service that privately owned businesses should provide widely to ATM users either completely free of charge, or at a charge that just about covers the cost of the service.

### **Common misconceptions about the ATM system**

Many Australian ATM users mistakenly believe that the cash sitting in every ATM they might potentially access is 'their' money and resent paying a fee to access 'their' money wherever they might be.

The money sitting in the ATM is actually someone else's money, and only becomes the ATM user's cash after he or she enters into a transaction requesting a fee for accessing one's money or account balance in recognition of the costs of the device, device insurance, cashing, device maintenance, electricity, electronic communications and switching, just to name a few costs here.

To insist on this belief is like believing that a traveling family, having bought a few cartons of milk that was left in the fridge at home in Sydney, drives to Melbourne and then pulls up at every petrol's station on the road and demands to get free milk from the station's fridge, since all milk in petrol station fridges is 'theirs' because they have milk in the home fridge. Although no one in their sane mind would expect to get free milk from every convenience store or supermarket wherever they go just because they have milk in their home fridge, the popular resentment towards ATM fees stems precisely from this rather absurd concept.

This belief is like the invisible hand guiding much of the analysis in *The Price of Disloyalty*. In the introduction to his policy brief, Josh Fear states that

someone has to pay for the infrastructure that gives people access to their own money. The modern payments system is a wonder of speed and convenience, allowing people to avoid queuing up in a bank branch to withdraw money. It is *entirely justifiable* for the providers of payment infrastructure to charge money to use it (p. 6, emphasis added).

However, Fear repeatedly contradicts this basic premise throughout his report. Once, he starts speculating about how much money ATM operators should actually charge for this 'wonder of speed and convenience' he falls back on the popular and misguided resentment about ATM fees as expressed in a survey conducted by the Australia Institute in November 2010. Given the hype in the media about ATM fees in general, and profit margins in the ATM industry in particular, we are not surprised by the results. Even the very wording of many of the questions in the survey show the bias toward the 'free milk everywhere' view of ATM fees of the survey designer, who then, due to the close-ended nature of the answers provided in the questionnaire, leads survey respondents to confirm the bias of those who commissioned the research.

It is impossible to understand why 82 percent of the 1294 surveyed Australian ATM users said that it was 'unfair' to be charged \$2 to use an 'ATM that [was] not from your own bank' (p. 10), without knowing anything, or caring, about the costs of providing ATM services, without reference to the popular 'free milk everywhere' view of the ATM system.

Josh Fear admits at several places in his report that the 'effect of ATM operators charging less or more than \$2 per withdrawal is impossible to gauge' (footnote 1, p. 6), since neither the RBA nor anyone else actually collects statistical data about the costs of ATM fees (the RBA only collects data on how much ATM operators charge for ATM fees) (footnote 1, p. 6), and recommends that 'investigation of the actual costs of providing ATM services could be undertaken by an appropriate government body (such the RBA or the ACCC) regularly and as a matter of course' (p. 4). Despite this disclaimer, *The Price of Disloyalty* proceeds to make a highly speculative case for sweeping government intervention on the issue of ATM charges including the abolition of balance inquiry fees and 'capping foreign-ATM prices at a level which is above what would apply in a perfectly competitive market (that is, reflecting the actual costs of providing ATM services plus a reasonable return)' (p. 5) in 'order to ensure that Australian consumers are not overcharged' (p. 5) based on circumstantial 'evidence' about the profitability of the ATM industry from a few hyped media reports and the dislike of Australian consumers for ATM fees expressed in the already mentioned survey (pp. 10-13).

It is a curious logic, to say the least, to talk about ATM operators' profits before actually knowing their costs of providing access to basic financial services, and then use the dislike of Australian consumers for ATM fees, based on lack of appreciation for how the ATM system works and the actual costs incurred by ATM operators, to argue that ATM operators make 'too much money', thus they 'must be charging too much', which is then used to argue for drastic reforms based again on many ATM users' view of ATM fees as 'illegitimate' (p. 14).

The legitimacy or fairness of ATM fees has to rely on more objective criteria that take into consideration the costs and incentives for cash providers, ATM owners, switching companies and ATM technicians to maintain and enhance the ATM system rather than just customers' perceptions. Like the cost of eggs, butter, milk, and other ingredients, together with waiting and kitchen staff wages, utility costs, and rent set a floor for the price of an omelet on the menu in a restaurant, so do the costs of ATM hardware, installation, cash, insurance, regular technical maintenance and help desks, communication and switching costs, and the costs of wages and commissions paid to staff who place ATMs in various merchant's locations or sell them to individual ATM owners on behalf of independent ATM operators set the floor for ATM fees.

The author of *The Price of Disloyalty* in making his argument for capping ATM fees for cash withdrawals and abolishing of fees for balance inquiries writes *as if* ATMs just 'appear' everywhere, maintain, repair, insure and cash themselves, and communicate with cardholders' banks at no, or as he puts it in the case of balance inquiries, 'negligible' (p. 4) costs. In the case of balance inquiries, Fear conveniently ignores the costs incurred by providers in placing an ATM.

Major costs are:

- Capital cost of the ATM (somewhere between \$7,000 to \$40,000 depending on the model);
- the cost of communication between the ATM and the cardholder's bank (around 30 cents per transaction);
- insurance (\$25 a month);
- repairs and regular technical maintenance of the ATM (over \$250 a month per ATM);
- help desk services for merchants operating their ATMs (around \$50 a month per ATM);

- the wages or commissions paid to staff who have sold or placed an ATM in a particular location (up to \$2,000 per ATM contract);
- administrative and legal costs incurred in establishing contractual relationships with an 'acquirer' of the ATM owner/operator (usually a financial institution that acts as a gateway to the ATM network and facilitates communication between the issuer of the cardholders' card and ATM owner, and provides clearance and settlement of funds between the cardholder's bank account and the bank account of whoever provides cash for a particular ATM, referred to in the ATM industry as 'switching' or 'acquiring') (often running in the thousands of dollars over the span of the contractual relationship).

The more parties come together to provide the different parts required for an ATM transaction to occur, the more costly the transaction becomes. There are many different business models now in the non-bank ATM sector and the costs per transaction vary from one business model to another.

Without actually knowing ATM operators' real costs in providing ATM services before and after the 2009 direct ATM charging reforms, Fear starts from the working assumption that the \$2 average ATM fee for cash withdrawals is too high and then proceeds from there to make purely speculative claims about 'ATM providers as a group appear[ing] to be reluctant to "break ranks" by competing on price' (p. 4) and keeping

prices artificially inflated, typically at \$2 per transaction. It is possible that the current pricing regime is simply a relic of the former situation, in which a \$2 fee was standard. This is the RBA's view, and it expects prices to fall once the market matures (although when this will take place is unclear) (p. 18).

What if this working assumption is entirely wrong and one starts from another working assumption, based on data on actual costs we provide below, that the \$2 fee represents the lowest threshold of what an ATM owner or an independent ATM deployer (not necessarily the same thing) would consider a reasonable return, or loss, for their effort, capital investment and risk exposure. Insinuating that current ATM fees are too 'high', Fear quotes an old figure from 2007 from the RBA, which does not take into account the non-bank ATM sector, that estimated the 'weighted-average cost of an ATM withdrawal is 74 cents and the median cost 85 cents' (Fear 2011: 16, quoting RBA 2009: 3). It is unclear from the report Fear quotes how the RBA arrived at this estimate, but currently the price of cashing ATMs for most independent ATM deployers alone is anywhere between 80 cents to \$1.50 per transaction. When one adds up all the other costs we mentioned above it is easy to see how the current average \$2 ATM fee is not only fair and reasonable, but already too low. The figures provided below (pages 10-14) show how the view that ATM fees are kept 'artificially high' does not square with the economic reality of the Australian ATM market. It is precisely fierce competition between independent ATM operators and banks that is keeping ATM fees artificially low around \$2 per transaction.

Below we provide an actual breakdown of costs of two widely spread business models in the ATM sector. The first one, which we will call 'merchant cashed', is a model in which an ATM owner places an ATM in a merchant's location (convenience store, pub, supermarket, etc.), in which the merchant (for example, and owner of a convenience store) maintains the cash in the ATM and receives payment from each ATM transaction performed in that location as a compensation for the merchant's cash, space and security risk. The second one, which we will call 'third party cashed', is a model in which armed providers of cash services provide money for the ATM, while the ATM owner pays a percentage from the fee

from each ATM transaction to the merchant from whom the ATM owner rents a place for his/her ATM. In the first model, the ATMs perform around 500 transactions, including 400 cash withdrawals and 100 balance inquiries, and excluding declined transactions due to insufficient funds in cardholders' accounts, which is a cost already absorbed by the ATM owner. In the second model, knowing the real costs, we will work on the assumption that this ATM does 1000 transactions (800 withdrawals and 200 balance inquiries, with the charge for both being \$2). In terms of its transaction volume, the first one would be considered to be a low transaction volume ATM site, and the second a medium transacting volume site. As we mentioned earlier, according to our own industry experience and knowledge, we believe that most of the growth in new ATMs in Australia has taken place in low to medium transaction volume locations.

### **Merchant-cashed model**

Non-bank ATM owners work in a distinct competitive environment, where they compete against each other and banks both for ATM users and merchants to cash and place their ATMs. This environment can be characterised as a 'two-sided market' (Smith et al. 2008: 39), involving two distinct group of customers: 1. ATM users, and 2. merchants. Both groups of customers are 'interrelated by the network benefits that each provides the other' (Smith et al. 2008: 39), ATM users get convenient access to cash and balance inquiries, while merchants benefit from the payment they receive from the ATM owner in return for cashing his/her ATM and also from increased consumer spending in the merchant's business due to the presence of an ATM. ATM owners have to provide incentives to both groups of customers to use their ATM networks, by charging reasonable ATM fees and offering sufficient inducements to merchants to take and cash their ATMs. We will get back to the two-sided nature of the ATM market in the concluding pages of our report.

Many banks are now required to pay very generous rents to merchants in high traffic ATM locations in metropolitan areas, and this has dramatically raised merchants' expectations when dealing with non-bank ATM owners. Independent ATM deployers are now routinely expected to pay anywhere between 50 cents to 1.50 per cash withdrawal to merchants, with the median payment to newly signed up merchants in many metropolitan areas being around 80 cents to \$1 per cash withdrawal. In more remote rural and less competitive areas, this payment is slightly less, although merchants even in these areas are constantly pushing for higher payments per transaction.

The table below shows the costs borne out by an ATM owner over a 60 month contract period. In such contracts the merchant will get paid 80 cents per cash withdrawal as a compensation for cashing the ATM that does 500 transactions (including 400 withdrawals and 100 balance inquiries) a month. With costs of \$2.10 per transaction the ATM owner operates with a loss.

<b>Merchant-cashed model (over 5 years)</b>			
	Capital cost	Monthly amortisation of cost over 5 years	Cost per withdrawal (500 Transactions per month)
Capital Cost (mid range lobby style)	\$10,000.00	\$166.67	\$0.33
Staging and installation	\$500.00	\$8.33	\$0.02
Cost of sale or placement	\$1,000.00	\$16.67	\$0.03 (\$750-\$1,200)
Signage	\$250.00	\$4.17	\$0.01
Freight charges to location	\$250.00	\$4.17	\$0.01
Shipping Insurance	\$15.00	\$0.25	\$0.00
Merchant commission/cost of cashing			\$0.80
Insurance against theft & damage		\$25.00	\$0.05
Maintenance & repairs		\$240.00	\$0.48
Communications		\$150.00	\$0.30
Costs of disputed transactions		\$25.00	\$0.05
Receipt Paper		\$10.00	\$0.02
<b>Total cost per transaction</b>			<b>\$2.10</b>

The removal of the right to charge for balance inquiries increases costs by 25% as is shown by the following table.

<b>Merchant-cashed model (over 5 years)</b>			
	Capital cost	Monthly amortisation of cost over 5 years	Cost per withdrawal (400 Transactions per month)
<b>No Charge for Balance Inquiries</b>			
Capital Cost (mid range lobby style)	\$10,000.00	\$166.67	\$0.42
Staging and installation	\$500.00	\$8.33	\$0.02
Cost of sale or placement	\$1,000.00	\$16.67	\$0.04 (\$750-\$1,200)
Signage	\$250.00	\$4.17	\$0.01
Freight charges to location	\$250.00	\$4.17	\$0.01
Shipping Insurance	\$15.00	\$0.25	\$0.00
Merchant commission/cost of cashing			\$0.80
Insurance against theft & damage		\$25.00	\$0.06
Maintenance & repairs		\$240.00	\$0.60
Communications		\$150.00	\$0.38
Costs of disputed transactions		\$25.00	\$0.06
Receipt Paper		\$10.00	\$0.03
<b>Total cost per transaction</b>			<b>\$2.43</b>

It is clear just from this one very real example that so many of low to medium transaction volume ATMs currently operate just below or above cost. The proposals to abolish charges for balance inquiries and cap cash withdrawals would make all these ATMs economically unviable, resulting in loss of thousands of ATMs, and dramatically diminishing access to cash in most areas, particularly in remote, rural and regional areas. Many ATM owners take a long-term view of ATMs that operate below cost, and in many ways ATM sites that perform reasonably well subsidise those that return losses in the ATM owner’s network. However, this will not be possible if charges for balance inquiries are abolished and cash withdrawals are capped, since, even most medium to high volume transacting ATM sites would become economically unsustainable under the proposed regime of ATM charges.

As one can see from above the cost of ATM transactions goes down when the number of transactions go up. It is easy to get deceived by old aggregate data on the costs of bank ATM transactions derived from ATMs that do over several thousand transactions a month<sup>1</sup> and that leave whole range of factors involved in the chain of supply of ATM services out of the equation. Capping the ATM charge only makes sense if the price of every component or service or goods’ provider involved in the chain of supply of ATM services is capped (from the cost of steel and electronic parts required to make ATMs by ATM manufacturers, importers and retailers of ATMs, currency rates, Visa and MasterCard charges for use of their brand on debit and credit cards, ATM technicians, logistics and insurance companies, switching companies, warehousing, taxes, import duties, software development, communications, just to name a few in this chain). There are also, as we mentioned earlier, so many different business models in which the costs, profits or losses, vary dramatically from one model to another, which again makes the call for capping of ATM charges, based on old aggregate data about how much it cost banks to provide ATM services under the previous, pretty much fixed, system of interchange ATM charges, all the more non-sensical and unworkable. The data here provides genuine and up-to-date information about the costs involved in owning and operating an ATM using just one of the more popular business models in the non-bank ATM sector.

**Third-party cashed model**

Below we table the direct costs borne out by an ATM owner over a 60 month contract period with a merchant, where an armed cash provider is used. The merchant only gets paid if the ATM reaches over 1500 transactions a month. Here we work on the assumption that the ATM does 1000 transactions a month.

<b>Third Party-cashed model (over 5 years)</b>				
	Capital cost	Monthly amortisation of cost over 5 years	Cost per withdrawal (1000 Transactions per month)	
Capital Cost (mid range lobby style, Level 1 Safe)	\$15,000.00	\$250.00	\$0.25	
Staging and installation	\$1,800.00	\$30.00	\$0.03	
Cost of sale or placement	\$1,000.00	\$16.67	\$0.02	(\$750-\$1,200)

<sup>1</sup> Like the 2007 RBA figure of the cost of bank ATM transactions (see RBA 2009).

Signage	\$250.00	\$4.17	\$0.00		
Freight charges to location	\$750.00	\$12.50	\$0.01		
Shipping Insurance	\$15.00	\$0.25	\$0.00		
Security Audit	\$4,000.00	\$66.67	\$0.07		
Cost of cashing		\$650.00	\$0.65	(total cash held	
Insurance against theft & damage		\$30.00	\$0.03	\$100,000)	
Maintenance & repairs		\$350.00	\$0.35		
Communications		\$300.00	\$0.30		
Back to base alarm		\$40.00	\$0.04		
Costs of disputed transactions		\$25.00	\$0.03		
Receipt Paper		\$15.00	\$0.02		
<b>Total cost per transaction</b>			<b>\$1.79</b>		

Removing our ability to charge for balance inquiries results in an increase in 11% on the cost.

<b>Third Party-cashed model (over 5 years)</b>		<b>No charge for balance inquiries</b>			
	Capital cost	Monthly amortisation of cost over 5 years	Cost per withdrawal (900 Transactions per month)		
Capital Cost (mid range lobby style, Level 1 Safe)	\$15,000.00	\$250.00	\$0.28		
Staging and installation	\$1,800.00	\$30.00	\$0.03		
Cost of sale or placement	\$1,000.00	\$16.67	\$0.02	(\$750-	
Signage	\$250.00	\$4.17	\$0.00	\$1,200)	
Freight charges to location	\$750.00	\$12.50	\$0.01		
Shipping Insurance	\$15.00	\$0.25	\$0.00		
Security Audit	\$4,000.00	\$66.67	\$0.07		
Cost of cashing		\$650.00	\$0.72	(total cash held	
Insurance against theft & damage		\$30.00	\$0.03	\$100,000)	
Maintenance & repairs		\$350.00	\$0.39		
Communications		\$300.00	\$0.33		
Back to base alarm		\$40.00	\$0.04		
Costs of disputed transactions		\$25.00	\$0.03		
Receipt Paper		\$15.00	\$0.02		
<b>Total cost per transaction</b>			<b>\$1.99</b>		

It is clear from both examples that if charges for cash withdrawals were capped at \$1 as the proponents of reforms in ATM fees seem to suggest<sup>2</sup>, most ATMs would become economically unviable leading to massive reduction in the number of ATMs.

### **Overstating the case for reforms of Australian ATM charges**

According to the survey results quoted in *The Price of Disloyalty*, 93% of respondents said 'they knew the location of the nearest ATM from their own bank' (p.11) indicating that 'most Australians are now sufficiently aware of the ATM fees that they have taken the trouble to find out how to avoid them in the normal course of their lives' (pp. 11-12). Another 82% of all respondents only use their bank ATMs to avoid or minimise paying ATM fees. Given this and the plethora of options Australian consumers have to withdraw cash without paying any ATM fees (visiting a branch of one's bank, using EFTPOS, or using only one's own bank ATMs) or to conveniently check account balance without incurring an ATM fee (using internet and mobile banking, plus many banks now send SMS to alert their customers when balances in their bank accounts reach certain low thresholds), it is difficult to see how ATM fees, including how they are displayed, are an issue.

While hardly showing any real understanding of the Australian ATM system, the author of *The Price of Disloyalty* and other proponents of reforms in ATM fees, like Greens' politicians Bob Brown or Adam Bandt, misrepresent the level of ATM fees or way ATM fees are displayed in other countries like the UK and the Netherlands<sup>3</sup> to set a benchmark for what should be achieved in the Australian system. Both Josh Fear in his report and Senator Bob Brown in the Greens' campaign against ATM fees, keep conveniently misrepresenting the British network of bank ATMs that uses the interchange system of fees that come out of cardholders bank accounts at the end of the month as 'free', while also forgetting to mention that the UK also has a network of non-bank ATMs with direct charges. The British so called Link Scheme allows independent ATM operators to charge a direct fee on top of the interchange fee. If the direct charge is more than £1.50, than the independent ATM operator cannot earn the interchange fee on top of the direct fee.<sup>4</sup> This is certainly dramatically different from how the British case is misrepresented by many Australian media outlets and the opponents of the current Australian system of direct charges. Senator Bob Brown continues to misrepresent UK interchange ATM fees as 'abolition' of ATM fees in Britain. Such misrepresentations, while conveniently picking one or two details, ignore 'the vast diversity of economic [and geographic] conditions, [logistical challenges,] regulatory systems and consumer behavior that occurs throughout developed economies' (Smith et al. 2008: 43). There is simply no meaningful comparisons between ATM fees in Australia and any other developed economy that might be used by the critics of the current Australian regime of direct ATM fees as a 'benchmark'.

---

<sup>2</sup> Josh Fear implies this when he says in his report that 'virtually no ATM operators charge \$1 per withdrawal, even though the \$1 interchange fees that applied in the past provided sufficient revenue to ensure ATMs were widely available prior to 2009' (Fear 2011: 15). This is a purely speculative statement that does not reflect the reality of our company, or the ATM industry prior 2009 and completely contradicts RBA's much more informed analysis about the ATM system prior the 2009 reforms (see RBA 2009).

<sup>3</sup> Josh Fear also claims in his report that ATM fees are prominently displayed on ATMs in the Netherlands. We visited Amsterdam and the Hague in January and February 2011 and nowhere did we see ATM fees being prominently advertised on any ATMs. While we do not discount the possibility ATM fees being advertised on some ATMs, we certainly did not come across any that did.

<sup>4</sup> We are grateful to Sandra Smith, the executive director of ATMIA Asia Pacific, for this clarification.

The perceived need to regulate ATM fees is not, as we showed above, based on the actual costs of Australian ATM transactions. Rather this need arises from a fundamental misunderstanding of the ATM system. The ATM market is two-sided and the direct ATM fee therefore cannot be ‘analyzed as though it were the “price” of a product or service exchanged between buyer and seller in markets that follow the classic model’ (Smith et al. 2008: 42). The relationship between ATM users (cardholders), merchants as providers of cash for ATMs, specialised armed providers of cash, independent ATM operators, switching companies and banks that issue credit and debit cards is ‘simply different from the relationship between buyers and sellers in the markets for most other goods and services’ (Smith et al. 2008: 42). Considering the plethora of cashless payment options and internet and mobile banking available to Australian consumers we mentioned above, and the fierce competition in the ATM market, independent ATM operators have crucial incentives to keep the direct ATM fees reasonable. This in many cases means that ATM fees are well below cost, since ATM operators find difficult to balance their own incentives with the incentives for ATM users to use, and merchants to cash, their ATMs. Rather than increase the ATM fee to a level that covers the cost of providing the ATM plus reasonable return, many ATM operators decide to forego their own costs and expectations of short to medium-term reasonable returns in order to encourage their two distinct markets (ATM users and merchants) to use and cash their ATMs. The deregulated direct ATM fee is an essential tool for an ATM operator to balance the incentives of all parties ‘to participate in [ATM] network transactions’ (Smith et. al. 2008: 42) in different locations that incur different costs.

### **Implications of proposed changes in ATM fees**

The proposals to abolish fees for balance inquiries and cap charges for cash withdrawals threatens the widespread availability, and viability, of the Australian ATM network by removing incentives for ATM operators to maintain and continuously invest in innovating the system. The proposals, if were to become law, would skew the ATM market to such an extreme degree that they would completely destroy the ‘competitive incentives that govern the numerous interrelated components of’ (Smith et al. 2008: 43) the Australian ATM network. It is quite possible that the Australian ATM network, under the proposed regime of ATM charges, would dwindle to pre-1999 levels, hurting every participant in ATM network transactions:

- cardholders would no longer have convenient access to cash;
- card issuing banks would no longer have such an extensive network of ATMs where their cards are accepted;
- companies like Visa and MasterCard would not have access to as many ATM locations as possible;
- merchants will have to accept a drastic decrease in amount of cash spent on their premises due to unavailability of easy access to cash to their customers;
- non-bank ATM operators would no longer be in business and lose considerable money that has been spent building up their business.

While card issuing banks will be certainly hurt under the proposed regime of ATM charges, they will still have the business of other banking services. Independent ATM owners have no other substantial business and would, as a result of the proposed changes, certainly cease to exist.

An additional flaw of the proposed changes in ATM fees is its one-size-fits-all approach to ATM fees. Affordable access to cash for low income earners and remote Indigenous

communities<sup>5</sup> cannot be improved by sweeping across-the-board changes that threaten the widespread availability of the Australian ATM network. Co-operation between government, consumer protection groups, banks and independent ATM operators is a much better way to find pragmatic and workable solutions to improve affordable access to cash for economically and/or geographically disadvantaged groups rather than impose top down 'solutions' that completely ignore the legitimate costs of, and incentives for, all the parties involved in providing ATM services.

## Conclusion

To sum it up, there is no coherent case that direct ATM fees are a problem. The proposed legislation on ATM fees promises to impose substantial costs on independent ATM operators, while at the same time making their businesses economically unviable. The proposed changes in ATM fees are a classic case of political opportunism, anti-business bias and anti-bank populism that would lead to unnecessary economic costs, based on extremely superficial rather than sound understanding of the economics of the Australian ATM system. History is full of examples of failures of excessive government regulation of two-sided markets (Chang et al. 2005) leading to 'shortages exacerbated by degraded incentives to invest in new capacity, excessive administrative costs, opportunities to game the system, etc.' (Smith et al. 2008: 44). In the more complex setting of the networked ATM industry, 'we should expect that the failures of legislatively mandated price reductions [and mandated free services like balance inquiries] would be recognized even more readily' (Smith et al. 2008: 44).

Australian consumers already have access to cash and balance inquiries which is well below cost of providing these services at many ATM locations throughout Australia. The current system of direct ATM charges generally balances the incentives of all participants - cardholders, banks and credit unions, merchants as providers of cash, other cash providers, independent ATM operators and switching companies - in ATM network transactions to use, maintain and improve the ATM system. Considering that Australian consumers spent an average of just \$0.84 cents a week on ATM fees (ABS 2010, also quoted in Fear 2011: 14), the deregulated direct ATM fees are a small price to pay for the widespread availability of the ATM system and the immense benefits of speedy and convenient access to cash it brings to millions of Australian consumers everyday.

---

<sup>5</sup> On some occasions we have advised remote Indigenous communities to take charge of their ATM needs by buying and cashing their own ATMs and setting the ATM fee at whatever level they feel is appropriate to their situation, or providing these services for free to their communities.

## References

- Australian Bureau of Statistics (ABS) (2010) *Australian Demographic Statistics*. Cat No. 3101.0, June.
- Chang, H., Evans, D.S., Garcia Swartz, D.D. (2005) 'The effect of regulatory intervention in two-sided markets: an assessment of interchange-fee capping in Australia', *Review of Network Economics*, vol. 4, issue 5, pp. 328-339.
- Fear, J. (2011) *The Price of Disloyalty: Why Competition Has Failed to Lower ATM Fees*. Policy Brief no. 23. Sydney: The Australia Institute and Choice.
- Filipovski, B. and Flood, D. (2010) 'Reform of the ATM system - one year on', *RBA Bulletin*, June Quarter, Reserve Bank of Australia.
- Reserve Bank of Australia (2009) *An Access Regime for the ATM System*.
- Reserve Bank of Australia (2011) 'About the payments system', <http://www.rba.gov.au/payments-system/about.html>, accessed on 1 March 2011.
- Smith, B. W., Lipsky, A.B., Robinson, A.J., Rinner, W. J. (2008) 'Why the market should set credit card interchange fees', *Bank Accounting & Finance*, October-November 2008, pp. 39-44.
- US Government Accountability Office (2008), GAO-08-558, *Credit and Debit Cards*, p. 30.
- Zapone, C. (2011) 'Greens may amend bank bill on ATM fee report', *The Sydney Morning Herald*, February 17, <http://www.smh.com.au/business/greens-may-amend-bank-bill-on-atm-fee-report-20110217-1axa9.html>, accessed on 17 February 2011.