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TITLE: **Owning an ATM is money in the bank**

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PUBLICATION: **The Punch**

PUBLICATION DATE: **17/02/11**

LINK: https://www.tai.org.au/index.php?q=node%2F19&pubid=834&act=display

Each and every day millions of Australians pay financial institutions to access their own money. Some pay more while others pay less, depending on the way they do it. Sometimes, as with EFTPOS transactions, the price consumers pay for their own money is largely invisible, being factored into the prices of goods and services. In other cases, the cost of using your own money is embedded in bank fees, or else in forgone interest from transaction accounts with negligible rates of interest.

One of the most expensive ways for Australians to access their own money is by using a third-party automatic teller machine - that is, as ATM not provided by their own bank. In most cases, third-party ATMs charge $2 for every transaction, including checking one's account balance. In other words, $2 is the price consumers pay every time they are disloyal to their bank.

In many cases consumers are charged ATM fees twice in the one transaction, if they first check their account balance and then withdraw cash. In this situation, the cost of a balance enquiry is effectively $4. This 'double-whammy' in essence penalises financially responsible behaviour.

New figures from the Australia Institute indicate that Australians are still paying around $750 million per year in ATM fees. Despite reforms in 2009 designed to lower prices and bring competition to the sector, third-party ATM fees typically remain at $2 or higher. In the Reserve Bank's words, the $2 fee has become a 'benchmark'.

There is substantial public opposition to ATM fees. Survey results indicate that the great majority of Australians (82%) believe it is unfair for banks to charge $2 to use their ATMs. Survey findings also corroborate the Reserve Bank's claim that consumers have changed their behaviour in order to avoid paying third-party ATM fees now that they are more aware that such fees exist.

In the year following the 2009 reforms, the use of third-party ATMs fell 18 per cent, delivering consumers savings of some $120 million. Virtually all these savings were the direct result of consumers deliberately avoiding foreign ATMs, even though behaviour change was never an explicit objective of the Reserve Bank's reforms. But there is only so much that consumers can do when 'market forces' continue to let them down.

Instead of bringing down prices, the reforms to the ATM system put in place in 2009 have actually meant that owning an ATM is now even more profitable than it was prior to the reforms. Independent operators can now expect to generate twice as much revenue from the same number of transactions because of the removal of interchange fees imposed by financial institutions on ATM operators.

The sudden jump in the profitability of ATM ownership has meant that the number of ATMs has increased, rents for ATM sites have risen, and opportunities to invest in individual ATMs have even emerged. To date, the benefits of reform have accrued exclusively to ATM owners, and particularly to owners which can attract many 'foreign' users. In fact, the provision of ATMs is such a lucrative market that investors can now 'buy' their own ATM and businesses which facilitate this have been listed on the stock exchange.

So why have the reforms failed? Partly because ATM fees are not yet transparent enough to foster real price competition. Information about the cost of using an ATM is 'embedded' in the transaction rather than being apparent before the transaction is started. Unlike a motorist who can see the price of unleaded petrol as they approach a service station, ATM users cannot know the cost of using an ATM in advance. In the mind of someone looking to shop around on price, information about the cost of using a third-party ATM simply comes too late to be of practical use.

This is why the government should require that ATM owners display the cost of foreign-bank transactions prominently on the outside of their machines. Potential users could then see at a glance what they would be charged if they used that ATM.

Another explanation for ATM fees remaining so high is that the recent reforms were intended to ensure that ATM owners had sufficient financial incentive to maintain and add to the existing ATM stock. This has undoubtedly come to pass: the typical fee of $2 is well in excess of the cost of providing the service. But there is a fundamental tension between the RBA's desire to increase the number of ATMs available to consumers and its stated commitment to price competition.

A third factor contributing to ATM fees is that many machines continue to enjoy what might be called a local monopoly. Even if prices were fully transparent to consumers (which they are not), in many cases there is only one ATM in a given location. The nearest alternative ATM may be within walking distance, in the next suburb, or even hundreds of kilometres away. The further away an alternative ATM is, the less any competitive pressures can be expected to apply. And even if a cheaper ATM is 'just around the corner' consumers may not necessarily be aware that this is the case.

Although free withdrawals are widely available at ATMs in other countries, Australian consumers continue to get a raw deal. The Reserve Bank argues that market forces will eventually force prices down, but we have been waiting almost two years for this to take place. It is time for the Government to consider seriously imposing price controls on the ATM system, particularly where ATM owners enjoy a local monopoly.

Moreover, fees for balance enquiries should be abolished entirely. Such fees serve to discourage responsible financial behaviour by effectively doubling the cost of ATM fees for cardholders who wish to know how much money is in their account before withdrawing cash. If the major banks are serious about the importance of financial literacy, they will support such a change. Or is their talk about social responsibility just more hot air?

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