



Australia's First Bank

Westpac Banking Corporation  
ABN 33 007 457 141

Products & Payments  
Level 18, 60 Martin Place  
Sydney NSW 2000 Australia  
Telephone: 02 9226 3213  
Facsimile: 02 9226 6200  
sherman@westpac.com.au  
www.westpac.com.au

Dr John Veale  
Head of Payments Policy  
Reserve Bank of Australia  
65 Martin Place  
Sydney NSW 2000

09 July 2004

### **Submission on proposal to ATM Payments Systems reform**

Dear Dr Veale

I refer to the Reserve Bank's request of 11 June 2004 for the views of interested parties on whether designation of the ATM payment system would be in the public interest.

Westpac is committed to payments systems reform, and has actively worked with the industry and the Reserve Bank to achieve consensus on a self-regulatory approach to achieve such reform.

With respect to ATM payments system reforms, as you are aware, Westpac is a member of the ATM Industry Steering Group (AISG) which was convened to work towards reforms in the ATM payments arena. The complexity of the ATM industry and the diversity of institutions represented on the AISG made agreement to a reform agenda very challenging. Despite this, an agreed position on a preferred model for achieving the reforms was reached and the AISG was in the process of finalising an application to the ACCC. Details of the industry position are contained in a separate submission to the Reserve.

Whilst Westpac's preference is for a self-regulatory approach to achieving efficient payments systems reforms in the public interest, we are concerned that the EFTPOS reform process resulted in a negative decision from the Australian Competition Tribunal (ACT). Therefore, despite the great deal of work done by the industry for over two years to agree on a model for self-regulation of ATMs, we understand the Reserve's reluctance to pursue reforms through this mechanism. We would, however, strongly encourage the Reserve to take account of the work done by the industry to date should it choose to use its designation powers.

#### **Westpac's position on ATM reforms**

Westpac supports the introduction of a "Direct Charge" in place of Interchange payments between card issuer and transaction acquirer.

The important features of this model are:

- Interchange received by acquirer is set to zero and interchange payments made by card issuer set to zero;

**Australia's First Bank**

- Interchange agreements remain in place to govern issues such as agreed message formats, transaction types supported, continuity of supply, settlement processes, points of escalation, scheduled outage notification;
- The cost of servicing customers to be disaggregated and recovered by means of a direct charge set by the ATM owner/operator;
- The Card Issuer has the ability to levy an issuer processing fee to recover the transaction processing and authorisation costs; and
- Direct charge needs to be clearly displayed on screen to the customer, with the ability to cancel the transaction at no charge.

During AISG deliberations Westpac supported in the first instance a move to a “Direct Charge” model which would see ALL interchange payments reduced to zero, and replaced with a direct charge on any transactions currently subject to interchange payments. In effect, all transactions conducted by cardholders on ATMs not belonging to their issuing institution would be subject to a direct charge. Westpac was however very cognisant of the challenge this may pose smaller players, and therefore supported in principle measures to protect this group. For example, we agreed that the ‘Rediteller’ branded ATMs could be classified as one network for use by CUSCAL cardholders. Westpac views this as a concession in order to facilitate industry consensus.

**Preservation of other Networks**

In order to reach agreement across the industry some members of the AISG made further concessions in agreeing to a ‘hybrid model’ which effectively allowed other aggregate networks to avail themselves of a similar concession to that proposed for the CUSCAL network. Whilst Westpac tentatively support this model in the interests of reaching an agreed industry position, we have a number of concerns about how it would work in practice, and consequently are not convinced it is in the public interest.

In our view, diluting the direct charge model to a complicated hybrid model has the potential to send mixed pricing signals to consumers, who are faced with a direct charge using an ATM not belonging to their institution one day, and no direct charge the next day whilst using an ATM not belonging to their institution as this device is may be deemed part of a member network. Westpac is concerned about how this type of arrangement could be quarantined to protect smaller networks and how “creep” that would undermine the integrity of any Direct Charge regime, could be prevented. Certainly, any network that is allowed an exception from the direct charging regime should be very clearly branded to signify that the ATM is part of a common network in order to avoid any potential consumer confusion. In Westpac’s view, clear guidelines defining what constitutes a network are essential.

**Pricing**

Westpac has publicly announced that it would not differentially price between ATM transactions in regional and metropolitan areas to further enhance the public benefits of the proposed reforms.

**Access**

In regards to access to the ATM payments system, Westpac is of the view that the proliferation of ATMs in recent years and the growth in the number of new independent entrants in this market demonstrates that there has not been a significant market failure in this area to date. However, we submit that the industry should continue to work together with APCA to ensure the design of an appropriate access regime to address any particular concerns the Reserve has in this regard.

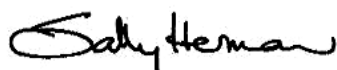
**Designation Process**

Should the Reserve determine that it is in the public interest to designate the ATM payment system, Westpac is keen to continue to work with the Reserve to achieve payments systems reform.

The timing and phasing of any reform agenda across a payments system as complex as ATMs, will require careful planning in order to maintain the current levels of integrity and stability of the ATM payments system to ensure minimum impact on customers. Westpac is of the view that APCA could play a central coordinating role in this regard in order to ensure a smooth industry-wide transition to any proposed reforms. The Reserve should also take into account the time required for extensive customer communication and staff training processes, which would be necessary to implement the reforms.

Westpac will welcome the opportunity to meet with the RBA to discuss possible designation, and to provide further clarification of our position on ATM reforms.

Yours sincerely



Sally Herman  
General Manager Products & Payments  
Business & Consumer Banking