

Report on a possible regulation of ATM fees

EXECUTIVE SUMMARY

Case
BWB/AW-412

Final Report

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Executive Summary

In anticipation of a possible regulation of ATM usage fees, the Austrian Federal Competition Authority has analyzed card payment transactions in order to provide a solid basis for discussion.

This report is based on discussions with institutions and stakeholders (Federal Ministry of Finance, Federal Ministry of Labour, Social Affairs and Consumer Protection, Austrian National Bank, Financial Market Authority, European Commission, Austrian Economic Chamber, Austrian Chamber of Labour etc.), information provided by the banks and third-party providers ('bank survey') and a survey among debit card users ('customer survey').

For the sake of a forward-looking economic and competition policy, it makes sense to create a conducive climate for effective competition. It is fundamentally true that, in a free market economy, competition is preferable to state-imposed regulations as a guarantee for the smooth functioning of markets.

Card payment transactions in Austria

There are 9.8 million debit cards, 8,700 ATMs ('Automated Teller Machines') and approximately 120,000 POS terminals ('Point of Sale' terminals) in Austria.¹ Most ATMs are operated by banks themselves, but approximately one in six ATMs is operated by the payment service providers FirstData and Euronet, the so-called 'third-party providers'. POS terminals are primarily installed by retailers and restaurants. An average of 2-3 ATM withdrawal transactions and around 4 cashless payment transactions are carried out per month for each Austrian debit card.²

Charges and fees

If debit card holders withdraw money from an ATM not operated by their issuing bank, the bank has to pay a so-called 'service fee' to the ATM operator. The service fee is used to cover the operators' cost of setting up and refilling the ATM. Due to a change in the regulations by the card network operator Maestro in July 2016, ATM operators can now waive the service fee and instead charge the card holder on the basis of a direct agreement ('surcharge'). Even before these surcharges were introduced, some banks announced that they would not refund the additional costs of their customers, because a surcharge is based on a contract between the card holder and the ATM operator. At the same time, some banks announced that they would introduce ATM withdrawal fees on the issuing side within the framework agreements for current accounts. The withdrawal fees would charge transactions at issuing banks own ATMs and/or transactions at ATMs

¹ Cf. <https://www.oenb.at/isaweb/report.do;jsessionid=F32AA075695BF03F25166B547EB3B5D3?report=5.4.1> as of the third quarter of 2016 as well as https://www.psa.at/fileadmin/user_upload/Presseinfo_16092014.pdf, as of 2014.

² As of 2015.

not owned by the issuing banks.³ These announcements led to a wide public debate, which culminated in a discussion about the prohibition of 'ATM fees'. Withdrawal fees as part of the current account agreement and surcharges were not always clearly distinguished.

Customer behaviour with card payments

While, generally speaking, the number of Austrian card users making cashless payments is increasing, there are still card users who prefer to pay by cash. However, the customer survey revealed that if ATM withdrawal fees or surcharges were widely introduced, customers would increasingly use ATMs where they could withdraw money without being charged (generally, the ATMs of their issuing banks), withdraw larger amounts of money and/or make cashless payments more often. Around 43% of the cardholders questioned do not know the fees associated with their current account and 35% know them only approximately. Only one in five cardholders knows exactly what his/her account costs. The willingness of customers to switch to another bank is also low. This reduced competitive pressure may imply that higher usage charges would not be passed on to the customers in the form of lower account maintenance fees.

Regulating withdrawal fees in current account agreements

From the customer's point of view, however, the legal prohibition of withdrawal charges is not effective. Banks would have numerous other options for introducing new fees for current accounts. Such a prohibition would also prevent cheap 'no-frills'⁴ offers being launched, where users only pay for the services they consume. However, measures which increase current account transparency and make it easier for customers to switch accounts are likely to increase competition, thereby reducing current account costs overall. With the Consumer Payment Account Act (Verbraucherzahlungskontogesetz – VZKG) adopted in 2016, a comprehensive list of measures was enacted, designed to increase competition mainly by means of higher cost transparency in current accounts. Since the majority of the relevant provisions of the VZKG have not entered into force, or have done so only recently, it remains to be seen whether the Act is effective.

Regulating ATM surcharges

In recent years, the number of third-party operated ATMs has increased. The third parties' business model is based around the service fees of the card networks. In 2015, some service fees were reduced by nearly 50%. A prohibition of ATM withdrawal fees might result in third-party providers being forced to give up ATM locations if service fees are reduced even more. This could particularly affect structurally weak regions. From the point of view of ensuring a comprehensive cash supply for the population, prohibiting withdrawal fees does not seem to be expedient. Such a prohibition would

³ In the bank survey many banks stated that they already charged for withdrawing money at ATMs in certain current account packages.

⁴ A 'no-frills' strategy is a strategy based on downsizing the services offered. Such a strategy is applied e.g. by cheap airline companies or for pre-paid rates in mobile communications.

also infringe upon people's private autonomy and therefore upon the right to respect for property guaranteed by constitutional law. From the point of view of the BWB, it is questionable whether such an infringement would be appropriate as it would represent an infringement upon the freedom of contract.

A variant of the prohibition of surcharges concerns the idea of obliging the card-issuing bank to bear and/or refund the ATM surcharge. Consumers would not have to pay the costs and the third-party providers could charge arbitrarily high charges without decline in demand. However, banks could pass the higher costs on to their customers in a different form, e.g. by increasing the account management fees. Ultimately, all customers would have to pay for these higher costs, not only those who cause them. Therefore, this variant also seems disadvantageous from the consumers' point of view.

Regulating the service fees between banks and ATM operators

Another possibility is to regulate the service fees paid by the card-issuing bank to the ATM operator. Increasing the service fees might make it easier to cover the costs of operating ATMs in structurally weak regions. The service fees, however, should not be too high, in order to prevent the third-party providers gaining excessive revenue. Therefore, a structured regulatory procedure would be preferable to statutory fees.

Conclusion: regulation for more competition

In summary, the promotion of competition in the current account business by increasing transparency and reducing barriers to switching, perhaps in combination with regulating the service fees between banks and ATM operators, would be the most promising way both to increase the efficiency of the card payment system and to enable consumers to benefit appropriately from the generated efficiency gains.

The Austrian Federal Competition Authority will continue to monitor the market and will again take stock of the situation by the end of 2017.