

ATM fees may be gone but what will replace them?

Written by The Conversation

It has been [suggested](#) that the [decision](#) by the [big four banks](#) to drop ATM fees is [penance](#) for recent wrongdoings. But it is far more likely that dumping these unpopular fees has been canvassed behind the scenes for some time.

In Australia, ATM use is [declining](#) by about 5% per year. Plenty of alternatives to getting cash are available, such as supermarket checkouts, and new technologies will only make ATMs more redundant. The question is, where will banks replace the revenue from removing ATM fees?

The RBA has [reported](#) that some 250,000 so-called “[foreign](#)” withdrawals are made each year. This is when you withdraw money from an ATM operated by a different bank. But this is less than a drop in the ocean compared to the [725 million](#) total ATM transactions made in Australia each year.

New technologies threaten ATMs

Sometime later this year a couple of new technologies will be launched that further undermine ATMs. The biggest will be [NPP](#), short for New Payments Platform. Another is [OSKO](#), a new payment mechanism from the people who brought you BPAY. Soon people will be asking you if you want to OSKO that!

NPP is a [brand-new system](#) that has been built from the ground up to be fast, reliable, flexible and able to handle the high volume of payments needed to operate a modern banking system.

If and when it works, the NPP will change the way that payments are made in Australia. Rather than putting a payment on a credit card or waiting a few days for a payment from another bank to clear, with NPP payments will be cleared in a few minutes or less.

Using NPP, anyone will be able to make an almost instantaneous transfer of funds into the bank of a supplier, such as a plumber (can you OSKO that?). Late at night one party animal will be able to transfer money from his/her account to a friend, in return for some of the folding stuff. With NPP, everyone with a smartphone and spare cash is an ATM.

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The technical boffins at NPP have been [beavering away](#) for over [four years](#) building the Formula 1 of payment systems. With the help of international experts from the SWIFT organisation (which handles [millions of high value payments](#) each day between the world's largest banks), [support from the Reserve Bank of Australia](#) and money from the biggest Australian banks.

Replacing ATM revenue

So where does that leave ATM's? Apart from possible conduits for [money laundering](#), they are a dying breed in the long term. So in future, how will banks pay for installing, replenishing with banknotes and protecting ATMs against [ram-raiders](#)? With extra fees elsewhere, of course.

The banks that stumped up the money for NPP do deserve a reasonable return on their investment, which was not without risk. But there are alternatives to levying fees elsewhere to replace ATM revenue.

Following a lead from the government on promoting a more flexible banking system, the RBA and the competition regulator, the Australian Competition and Consumer Commission (ACCC) [recently asked](#) the Productivity Commission to investigate the [Four Pillars policy](#) with ACCC chairman, Rod Sims, describing retail banking as being:

characterised by oligopolies comprising the large banks, who can influence products, prices and other conditions in important markets either alone or together.

The Australian Bankers' Association [demurred](#) of course, saying that they did not:

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believe there are widespread systemic issues in the banking system or regulatory framework that hinder competition. Nor do we believe further regulation is the path to greater competition

So how to stop another round of opaque, predatory pricing? Give the banks what they say they want - competition.

Creating more competition

As part of a radical shakeup of banking, the Indian government has recently introduced the concept of [payment banks](#), which as the name suggests concentrate almost completely on [payments](#)

. As such these “banks” do not take deposits nor make loans, and so the need for prudential, as opposed to consumer, regulation is minimal.

It would not be difficult to create such payment banks in Australia. In fact, with companies like Woolworths, Coles and the Australian Post Office, which already have embryonic payments systems in place, we are almost there already. And of course, as initial investors and developers of NPP, the big banks already have a head start on providing payment services.

But how to create a level playing field? One way would be to float the New Payments Platform.

Assuming that the concept will work, as envisaged by the RBA and banks, there should be a market for the shares, especially among super-funds, which would love the long term stable returns from such a key infrastructure. The proceeds from the sale would be returned to the banks that had the foresight to invest and the public, of course, through the RBA.

A new company would set and publish transparent charges for its “wholesale” services, providing a reasonable return for its shareholders. In turn, the “retail” providers, the payment banks, would charge their customers for each payment and the lowest cost providers would set the pace on prices for the industry.

When payment banks are paired with the new “open banking” initiatives, such as those

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developed [in the UK](#) and encouraged by the [Productivity Commission](#) , new FinTech (Financial Technology) companies would be able innovate in the payments area and keep costs down.

It looks like one of the most boring areas in banking is about to get a big kick up the pants, and the big banks may not like how it feels.

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