The big four banks dropped ATM fees

It's not often that Australia's big 4 banks can claim to be the bearers of glad tidings. Yet, recently, they seem to have done just that, announcing the removal of the $2 fee charged on consumers using a "foreign" (i.e. competitor's) ATM to withdraw cash.

So, how should wary consumers interpret this news?

In one respect, the timing of this announcement is hardly mysterious. The big 4 banks have come under increasing pressure after a number of scandals ranging from the alleged mismanagement of their financial advice and insurance businesses to more arcane (alleged) shenanigans such as the manipulation of market interest rates. With exquisite timing, all this has apparently occurred at about the same time as they were being effectively bailed out by a taxpayer-funded guarantee of bank borrowings in the immediate aftermath of the Global Financial Crisis.

Removing the "foreign" ATM fee might be a cheap way for the banks to salvage some reputational capital and, more importantly from their point of view, head-off any move towards a political and, therefore, dangerous (for them) and unpredictable, banking royal commission.

But the more interesting question for customers should be: what's the *quid pro quo*?

Like the Greeks at Troy, there is no reason to expect the big 4 banks to provide largesse without good reason, i.e. self-interest. And the big banks, comfortably ensconced in their cosy oligopoly, have never seemed overly concerned about their reputations in the past. So what has changed?

Well, for a start, ATMs appear to be a technology in decline.

According to Reserve Bank of Australia (RBA) data, in the 2016-2017 financial year, there were approximately 250 million "foreign" ATM cash withdrawals (out of a total of 625 million). As recently as the 2009-2010 financial year, total ATM withdrawals amounted to almost 900 million, about 325 million of which were "foreign" in nature. Moreover, according to the RBA, only about half of all ATMs are now run by banks.

So, the use of ATMs – and the ATM fee income generated for banks – appears to be well past its peak with little likelihood of recovery.

So not exactly a major concession by the banks.

Despite its unpopularity, however, the ATM "foreign" withdrawal charge has had a purpose. It is costly for a bank to maintain an ATM; keep it well stocked with cash and ensure it is fixed when it breaks down. Indeed, it has been suggested that the net cost (i.e. after any fee income generated) to a bank of maintaining an ATM network could be as high as $100 million. The fee, therefore, has helped banks recoup some of these costs. In addition, however, it has also provided them with an incentive to maintain the biggest network of ATMs so as to maximise, not just economies-of-scale benefits (i.e. usage per machine) but, in addition, to attract as many high-margin "foreign" withdrawals to the network as possible.

Removing the fee suggests that, not only are ATMs likely to become a bigger drag on bank profits, but banks will now have less reason to maximise the reach of their ATM network. On the contrary, banks will now have a strong incentive to free-ride on each other's ATM networks.

The most likely result: the number of bank-run ATMs will be significantly reduced. In this light, it is interesting to note that in 2010 – at the apex of the cash withdrawal boom – there were about 29,000 ATMs in Australia. By 2016, despite an almost 30% reduction in ATM cash withdrawals, there were 32,000 ATMs (i.e. 10% *more*).

At this point, one need only point out that it is far easier, politically and practically, to shut down an ATM than it is to shut down a bank branch. In fact, it now transpires, that prior to the announcement by CBA to remove foreign ATM fees, the banks had already been discussing the possibility of setting up a utility company to run their ATM networks.

So the first stage of the *quid pro quo* is that consumers thinking of withdrawing cash from a bank-run ATM (i.e. fee-free) in future, should seriously consider buying sturdier shoes; they might have to travel further to find an ATM and, once they have found one, they will probably have to join a longer queue.

Now, these days, no story in business is complete without a role for the Joker card; that is to say, technology. In this case, the rise of blockchain cryptocurrencies like Bitcoin and online payment systems such as PayPal, Google Wallet and Alipay are fast removing the need for cash … and ATMs. The RBA notes that the share of cash transactions in Australia has declined from 62% in 2010 to 37% in 2016.

So the second stage of the *quid pro quo* might well be that our major banks exploit their current political troubles to prod Australian consumers more forcefully into adopting online payment technologies.

Ultimately, sacrificing a few hundred million dollars in annual fees is a small price for the banking sector to pay if they can convince consumers to take up far cheaper (for the banks) payment methods to manage their day-to-day transactions. But a decline in ATM service may also be a blessing in disguise for consumers (and the economy) if the result is a switch to more efficient online payment systems with lower transactions costs for all users.

In short, on this occasion, it might be wise not to look a gift horse in the mouth, even one delivered by our big 4 banks.

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