

17 August 2001

Mr Ian Macfarlane  
Governor  
Reserve Bank of Australia  
65 Martin Place  
SYDNEY NSW 2000

Dear Governor

We refer to your letter of 25 June 2001 concerning the operation of the Visa debit (or Visa payment) card issued by our institutions.

At the outset, we would like to assure you of our commitment to meaningful and balanced reform of Australia's credit and debit card interchange arrangements, including Visa debit interchange.

We write to advise that – as a group of smaller financial institutions – we have agreed to jointly examine interchange arrangements for the Visa debit product, in which we share a common interest. This product is a unique product with similarities to both the EFTPOS debit card and credit card. It plays a critical role in the payment system by providing customers who do not want or cannot afford access to credit cards with the ability to use the global credit card payments network.

Our institutions have issued these cards since at least 1982 and before the emergence of the Visa credit card, allowing members to access their own funds (including pre-arranged overdrafts) through the Visa payment network over the counter, internationally and – today – over the phone, in the mail, and on the Internet.

The results of our research will be provided to you when finalised in September 2001. This will examine the history of the product, its underlying costs, and benefits for cardholders and retailers, and will therefore be valuable in assisting with the process of determining interchange arrangements for Visa debit cards.

However, we wish to express our concern that the reform process to date has focussed on credit cards only, yet pre-judgements appear to have been made regarding Visa debit. In our view, reform of credit card interchange arrangements cannot be isolated from the reform of debit card interchange. Therefore both Visa debit and EFTPOS debit need to undergo a level of consideration similar to that currently being given to credit card interchange. This will ensure appropriate decisions on interchange are made in a way that ensures consistency in approach on payment products. This will also allow the aggregate impact of the reforms on particular classes of industry players to be considered when determining an appropriate reform timetable.

The Reserve Bank/ACCC's Joint Study acknowledges that Australian EFTPOS debit card interchange arrangements are indefensible and are clearly in need of reform. This remains the

case more than six years after the Prices Surveillance Authority warned in 1995 that our institutions – building societies, smaller banks, and credit unions – were “clearly losers” because of Australia’s unique EFTPOS debit card interchange arrangements.

Reform of debit and credit card interchange arrangements must occur concurrently. Otherwise differences in timing will inevitably favour the interests of larger market participants above others. If credit card reform delivers benefits to retailers, regulators must ensure that retailers pass on these savings to consumers. Otherwise, the sole outcome could be that credit card holders may pay more in annual fees or transaction fees, thereby stifling the uptake of electronic payments in Australia. These outcomes are little appreciated in the public debate about credit card reform. Meanwhile, EFTPOS debit cardholders and their financial institutions will continue to pay interchange to large retailers and large acquiring banks.

Smaller financial institutions (and particularly mutually structured organisations, operating on retained earnings with limited recourse to capital markets) are especially vulnerable to the sudden impacts that may result from piecemeal regulatory intervention. An outcome that disadvantages smaller financial institutions or which causes them to exit the business, thereby reducing competition in the marketplace, would be a hollow victory for consumers and regulators.

Australia’s EFTPOS debit card interchange arrangements have persisted against the interests of smaller financial institutions and their customers, favouring some of the largest banks and retailers. It would be unfortunate if interchange reform further disadvantaged smaller financial institutions by prioritising the interests of larger players. In our view timing differences alone will be extremely critical.

We would appreciate your early assurances that reform of EFTPOS debit card interchange will be accelerated to coincide with reform of credit card interchange arrangements and that Visa debit will receive a full and fair assessment.

Yours sincerely

[ORIGINAL SIGNED]

Steve Laue  
CEO  
**Credit Union Services Corporation**

[ORIGINAL SIGNED]

Don Gregg  
General Manager, Electronic Solutions & Service  
**St George Bank**

[ORIGINAL SIGNED]

Rob Hunt  
Managing Director  
**Bendigo Bank**

[ORIGINAL SIGNED]

Jim Larkey  
Executive Director  
**Australian Association of  
Permanent Building Societies**