

30 October 2000

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Dear Ian

I refer to the letter dated 11 October 2000 from John Veale, Head of Payments Policy Department regarding the Reserve Bank of Australia (RBA) and Australian Competition and Consumer Commission (ACCC) joint study into interchange fees and access arrangements ("the Study").

I note that BankWest freely participated in the Study and welcomes its publication as an important contribution to the current public discussion about interchange fees and access.

BankWest is also, in conjunction with other banks, working constructively and openly with the ACCC to address the issues of access to the payment system and any concerns the ACCC may have with the methodology for setting interchange fees.

I would like to take this opportunity to make the following observations about the findings of the Study:

- BankWest considers that the Study appears to have underplayed the necessity for banks to obtain a reasonable return on their investments. Whilst the study did recognise setup costs, it did not emphasise that the ATM's credit and debit cards payment systems in the early eighties remained unprofitable for many years.
- I note that the report did not compare interchange pricing at an international level. An international comparison have been appropriate in positioning our payment systems at an international level.
- The Study does not appear to have taken into account the cost of loyalty schemes and programmes in assessing the costs incurred by the banks in providing ATM, credit and debit card services.
- BankWest notes that the Study did not seem to take into account the fact that there is a cost to cash transactions as well as to other forms of payment such as cheques and credit cards. It would be appropriate for current discussions to incorporate research into the real cost of cash transactions.

As part of this same issue, BankWest considers that the Study did not sufficiently emphasise the significant benefit to retailers and the public in terms of cash handling, cash distribution and security when not having to deal with cash, especially through the EFTPOS and credit card systems.

- The Study highlighted the lack of use and support for other payment systems such as cheque and direct debits. Both of these payment systems have been available to the public for a significant period of time. Access to the cheque payment system was opened up in 1998 (?) yet very few participants (if any) have in fact used this opportunity to do so. The cheque payment system is now recognised as a legacy system. Many studies have been conducted regarding the use of the Direct Debits system as an alternative payment method in Australia over the past few years but the reality remains that the public acceptance is very low.
- The lack of public support for cheques and direct debits is reflected in the public's willingness and desire for faster and cheaper payment alternatives, hence the growth in usage for fast phone, EFTPOS, ATM and Internet banking services which allow far more transactional flexibility than has ever been experienced by the public.
- As for the introduction of alternative payment systems such as Internet banking, the Bank is investing heavily into research and development to provide the public with faster and more efficient access. However, this has come at a considerable cost, there is strong competition, and customers are not charged for this service.
- BankWest has and is actively supporting access competition within the payments systems by entering into commercial arrangements with third party providers. This third party sector relies upon the integrity and stability of the bank's networks to offer these services.
- In conclusion, BankWest considers that the Study did not sufficiently take into account a number of factors, in particular: the cost of the banks' initial investment in the payment system and the reasonableness of recovering this; the importance of viewing interchange fees in an international context; the cost of loyalty schemes; and the fact that there is a cost to cash as well as card transactions. BankWest notes that consumers are now enjoying the full benefits of a mature payment system in the form of access, availability and convenience which is acknowledged in the Study to be world class.

Having made these observations, I would like to reiterate BankWest's firm commitment to co-operating with the ACCC to address any concerns it may have about the operation of the credit card system within Australia.

Thank you again for the opportunity to respond.

Sincerely



TERRY BUDGE
MANAGING DIRECTOR