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26 August 2005

Dr John Veale
Head of Payment Policy
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Dear John

Response to Proposed Changes to Credit Card Interchange Standard A (Consultation document – July 2005)

The National is supportive of the approach to establish a common benchmark interchange fee for the Bankcard, MasterCard and Visa Schemes because it creates competitive neutrality between schemes and does not reward one scheme over the other for being inefficient.

As far as the mechanics of the calculation is concerned, we would favour the adoption of Version B. This approach involves the card issuers, who comprise at least 90% of the volume, selecting one independent consultant that is agreeable to the Reserve Bank, to calculate a single benchmark with only one cost study.

Version B is much more efficient than Version A, because Version A requires each of the three credit card schemes to select their own independent consultant and conduct three separate cost studies.

The National also believes that in adopting Version B it would make more sense for each scheme to adopt the same interchange rate for each transaction type. This would ensure that interchange rates are not used as a competitive device by card schemes with credit card issuers. Common interchange rates across schemes for each transaction type would eliminate this problem, while leaving schemes free to compete on marketing and other 'non-interchange' fees, service and product innovation.

This approach would be more efficient for credit card acquirers. Many acquirers may feel obliged to reprice individual merchants when a card scheme modifies interchange rates even though at an overall book level the result is neutral. To the merchant incurring the additional cost, there is no obvious rationale for the arbitrary increase.

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A mechanism is also required to deal with the potential for new transaction types which may legitimately emerge after a benchmark is set. Under existing arrangements, if a new transaction type involved an interchange rate different to the weighted average, then by definition, interchange on other transaction types would need to change. Again, this may place an arbitrary increase on some merchants and arguably raises cross-subsidises

We are happy to discuss these views with you face to face if required.

Yours sincerely



Bruce Munro
Executive General Manager (Australia)
Business Products & Services