

25 March 2004

Ms Michele Bullock
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Please reply to:
Robert Slocombe

Dear Ms Bullock,

Re: Designation of Visa Debit

I refer to your letter of 23 February 2004 to Mrs Gail Kelly inviting responses to the Reserve Bank's designation of the Visa Debit product.

As you are aware St.George is a significant issuer of the Visa branded debit product with more than one million cards on issue to our customers. The introduction of the product by St.George allowed customers who did not want (or qualify for) a line of credit access to a world-class payments product.

As part of the reform of scheme debit interchange we have been in discussions with the RBA, Visa and other issuers and look forward to working further on the design of the interchange standards. Please find listed below St.George's views on a number of issues we believe are central to the design of the interchange standards.

Common methodology

As we have previously stated, St.George believes that a consistent interchange methodology must be applied across scheme card payment products, with the distinctions between credit cards and debit cards factored into the resulting interchange calculation. In particular the calculation must be based on sound economic principles that are transparent and defensible, and should be based on issuer cost data.

Given the similarities between credit and debit cards, and the reliance on a common infrastructure, it is appropriate that the model and standards developed for credit card interchange be used as a basis for designing a debit card interchange model. Adjustments can then be made to the factors included in the model to represent the different product features found in scheme debit products.

Importantly the differences between scheme debit and EFTPOS need to be fully understood. The payment access provided by the Visa Debit product carries several areas of additional cost that are not applicable to standard EFTPOS based transactions. These costs include fraud, scheme charges, collection costs, write-offs where transactions place accounts in arrears, paper processing costs, chargeback processing costs and costs of supporting international transactions.

Honour All Cards Rule

St.George believes that the Honour All Cards rule should be retained in the Australian market as it does not suppress competition, rather it:

- Ensures new market participants benefit from the scale of the established network, removing barriers to entry
- Ensures acquirers cannot actively exclude issuing participants
- Encourages issuer product innovation
- Promotes confidence in the payments system through guaranteed acceptance and merchant payment
- Does not stop merchants from accepting other payment systems

To date merchants and acquirers in our market have not flagged the Honour All Cards rule as a concern, rather it is the economic drivers of interchange that require review. In order to satisfy any potential merchant opposition the RBA could consider the introduction of transaction surcharging as a relief mechanism available to merchants determined to recoup acquiring costs.

The Honour All Cards issues raised in the US Wal-mart case are not directly relevant in Australia as competition law differs substantially between the two countries and the product penetration, level of scheme debit interchange and the availability of competing payment systems are also vastly different.

Product differentiation

St.George fully supports the RBA recommendation that the Visa Debit product is easily identified at the point of sale. As you are aware St.George already has unique BIN identifiers for our scheme debit portfolios, and we will continue to work with Visa and other issuers to ensure the product design standards reflect the distinction of the Visa Debit card from both Visa Credit and standard EFTPOS cards.

Timing

To ensure an equitable outcome to all participants, a transition period is required to ensure that the full benefits of reform are realised. In particular, it is vital that all issuers are able to meet the technical requirements of reform within the given timeframes, that any interchange reductions are actually transferred from acquirers to merchants and customers, and that any required merchant education regarding card identification can be undertaken.

We look forward to further discussions with the Reserve Bank regarding the design of the interchange standards and access regime for scheme debit. The outcome of these deliberations has significant impact on both St.George and our customers and we welcome a timely resolution of any outstanding items.

Yours sincerely

Robert Slocombe
Head of Deposits & Electronic Channels

cc. Andrew Thorburn, Group Executive Personal Customers