



AUSTRALIAN BANKERS' ASSOCIATION INC.

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Dr John Veale
Head Payments Policy Department
Reserve Bank of Australia
65 Martin Place
Sydney NSW 2000

E-mail: pysubmissions@rba.gov.au

Dear Dr Veale,

**ABA submission to the RBA regarding the process and content of the
2007/08 payments systems review**

Thank you for the opportunity to provide input into the RBA's consideration of how to conduct the 2007/08 review of the reforms to card-based payments systems, including interchange fees.

The Australian Bankers' Association's (ABA's) position is that the review of payments reforms should be independent - undertaken by an organisation or individual that has not participated in payments reforms to date or has any obvious conflicts. This restriction makes it more difficult to find suitably qualified individuals or organisations, but independent review is a basic principle of good regulatory practice.

The definition of a 'payments reform' should include not only explicit rules introduced by the RBA under its PSRA powers, but also those facilitated through other means, including suasion.

The ABA agrees the review should be confined to card-based payments systems. This would include credit cards, EFTPOS/debit, ATM and pre-paid cards. Within these, only those issues covered in the ACCC/RBA Joint Study should be considered – interchange fees and access arrangements.

We have a strong view that to enable a proper study of the relative costs and benefits of card-based payments instruments, a credible study on the cost of cash is needed. This was a shortcoming of the Joint Study. Cash is the base-line payment instrument by which the relative costs and benefits of other instruments need to be considered. Cash competes with card transactions.

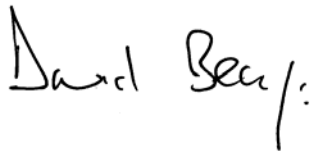
The conceptual approach to the review should be that of a cost/benefit analysis drawing upon principles of sound regulatory practice. The costs and benefits of each reform should be detailed and, when that is completed, the results aggregated across all reforms to derive an overall result or assessment. This will allow a comparison of whether the policy aims were achieved.

The next stage in the review should be to look at alternative approaches to reform that may result in higher net-benefits. For example, the Gans & King 'neutrality' credit card reform model was not adopted, but the merits of this model look more appealing as evidence emerges that internationally-owned closed scheme cards have been significant beneficiaries of the reforms.

By way of process, the ABA would like the review organisation to produce three documents for written comment: (a) a discussion paper, (b) a draft report, and (c) a final report. The ABA is happy with the indicative timing.

If you have any questions, please do not hesitate to give me a call.

Yours sincerely

A handwritten signature in black ink that reads "David Bell". The signature is written in a cursive, slightly slanted style.

David Bell