



31 August 2007

Ms Michele Bullock
Head of Payments Policy Department
Reserve Bank of Australia
GPO Box 3947
SYDNEY NSW 2001

By email: pysubmissions@rba.gov.au

Dear Ms Bullock

Review of Reforms to Australia's Payments System

Thank you for the opportunity to provide comments on the Review of Reforms to Australia's Payments System.

Cuscal Ltd is Australia's leading wholesale provider of transactional banking, liquidity and capital management products to more than 150 financial service retailers, including the majority of Australia's credit unions. Cuscal is an Authorised Deposit-taking Institution (ADI) regulated by APRA and has a AA- long term credit rating with Standard & Poors.

Cuscal is major participant in the payments system, providing connections and managing functions on behalf of credit unions and other clients (and through them, more than three million Australians). Cuscal is on the Board of APCA and on the major APCA clearing stream management committees. Cuscal is an EFTPOS and ATM bilateral interchange partner connecting its clients to the payments system and operates the national Rediteller ATM network. Cuscal is also a principal member of the Visa, MasterCard and BPay schemes.

Cuscal is providing this submission in its capacity as a commercial services provider to credit unions and other specialised financial institutions. I note the industry association for credit unions and mutual building societies, *Abacus - Australian Mutuals*, is providing a separate submission covering issues relevant to the mutual ADI sector more generally.

Cuscal supports the promotion of an efficient, competitive, accessible payments system that encourages and fosters innovation. We have reservations about the potential of the various payments reforms implemented to date to achieve these objectives. Cuscal advocates an approach to payments regulation that promotes competition, recognises the diversity in the market and broader competitive impacts, steps beyond generic assumptions on costs, and promotes consistency in the different payment instruments in the market.

Cuscal favours in principle a model where the industry participates in a co-regulatory approach to promote efficiency and competition. Individual regulatory interventions may work to hinder competitive outcomes and innovation. It is critical, however, that governance bodies and co-regulatory work in payments includes the views of smaller institutions and accommodates the diversity in the payments market. In this model the regulator would have a key role in promoting efficiency and consistency and ensuring industry processes are inclusive. Cuscal is actively engaged in current industry work in relation to EFTPOS investment and participate in initiatives to drive investment and innovation in payments.

Cuscal encourages the RBA to use the review to clarify the measures of efficiency and competitiveness that should underpin a consistent and pro-competitive approach to Australia's payments system. We consider that interchange (with transparency and consistency in methodologies) is a legitimate component of the system. Moving forward, we encourage a whole of system approach, rather than different product interventions, and a more comprehensive consideration of the competitive and market impacts.

One of the objectives of the payments reforms was to improve access to the payments system and lower barriers to entry for new participants. In our view, however, the impact of the reform process has been to strengthen the market position of large merchants and to advantage larger financial institutions to the detriment of smaller issuers in the market.

For example, the removal of the Honour All Cards rule has the potential to reduce the capacity of smaller institutions to promote and invest in product innovation. With unpredictability of card acceptance, the commercial reality for new participants is that multiple cards need to be offered to maximise acceptance options for consumers, reducing economies of scale and sustainability. In our view, the unintended outcome has been to increase barriers to entry for new entrants and to constrain smaller participants.

The capacity to surcharge adequately compensates retailers for any costs associated with accepting cards. Removal of the Honour All Cards rule is opening up activity that may be anti-competitive with large retailers moving to use their market power to protect their own new product offerings and restrict consumer choice in payment options.

We continue to query the policy basis for the exclusion of cash-out transactions from EFTPOS reforms. The exclusion of cash-out transactions only serves to benefit large retailers who routinely provide cash as opposed to retailers more generally. It also continues to adversely influence fees and the attractiveness of EFTPOS for consumers.

As a further consistency issues, Cuscal continues to object to the exclusion of fraud costs from the designated Scheme Debit interchange methodology. We do not see the justification for this exclusion given the shared functionality with credit cards and the appropriate inclusion of fraud costs within the credit card interchange standard. Cuscal also queries the continued exclusion of three party card schemes from the designation and regulation process. We believe this is creating unfair benefits to these schemes.

Cuscal looks forward to continuing to engage with the RBA in its review of payments reforms in Australia. We support a regulatory approach that is balanced, consistent and based on clear objectives. In our view, the current review provides an opportunity for the RBA, industry, APCA and card schemes to agree on principles to foster self-regulation and encourage flexibility, innovation and competition while recognising diversity in the market.

Please do not hesitate to contact me on (02) 8299 9006 or dheine@cuscal.com.au if you would like further information on the issues raised in this submission. Thank you for the opportunity to provide input to the review.

Yours sincerely



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