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Dear Dr Veale

### **Designating the Card Payment Systems**

I am writing in response to the Reserve Bank of Australia's (**RBA**) request for submissions from interested parties on whether the RBA should exercise its powers under the Payment Systems (Regulation) Act 1998 to designate the EFTPOS and ATM payment systems in Australia. This letter outlines Pulse's views in relation to the RBA designating either of these card payment systems.

#### **Our business**

Founded in 1999, Pulse operates an independent EFT switch in support of its ATM and EFTPOS businesses. We have approximately 2100 ATMs connected to our network, which represents over 10% of the total number of ATMs in Australia, and are growing our EFTPOS business, which was launched in September 2003. Over the period of our operation, Pulse has invested in substantial start-up costs that have been necessary to achieve our current position of viability and relevance in the ATM and EFTPOS systems.

Pulse connects into the interchange networks under arrangements with BankWest. We are also certified for direct connection into the MasterCard and Visa International systems as a third party processor. However, we have not established direct connections to the other participants in the ATM and EFTPOS systems. We are an Associate Member of APCA and are optimistic of greater involvement in this forum going forward. In any event, we continue to acquire transactions and operate our business according to the relevant APCA rules. Since the beginning of this year we have also participated in the ATM Industry Steering Group (**AISG**) looking at a direct charging model for ATM fees.

Pulse's competitive advantage is our functionally rich technology that enables us to deliver innovative payment solutions. Last year we provided Visa's Express Payment Service at certain Rugby World Cup venues. We have also recently entered into a strategic relationship with Travelex to commercialise our dynamic currency conversion service (which allows foreign cardholders to transact in Australia in their home currency) using EFTPOS and ATM devices. Our delivery of dynamic currency conversion at ATMs is a world first.

#### **Designating the ATM system**

We believe that direct charging at ATMs and open access to participate directly in the ATM system are in the public interest and would support any process to implement these reforms in a timely manner. Through our involvement in the AISG, we have assisted in the development of the industry's direct charging model. Given recent developments in relation

to the unsuccessful authorisation of zero EFTPOS interchange fees, we believe that, in all the circumstances, it is in the public interest for the RBA to designate a direct charging regime for ATMs in line with the model developed by the AISG. In doing so, the RBA would be empowered to implement a reform with industry support in a timely, transparent and efficient manner, whilst also maintaining the integrity of the ATM system.

Any reform of the ATM system must be accompanied by access reform to enable competent participants, such as Pulse, to connect directly to other participants in the ATM system. This reform should also establish clear guidelines for the devices that may operate and the transactions that may be performed within the ATM system. Access reform is of particular importance to Pulse because it impacts on our ability to deliver innovation and competition in the ATM system. Furthermore, such reform is clearly in the public interest because it will create greater competition, transparency and efficiency between the participants.

### **Designating the EFTPOS system**

The reform of ATM and EFTPOS interchange fees should be considered separately on their merits. It is important to note that cardholders using EFTPOS cannot select the acquiring network through which their transactions are processed, as is largely the case with ATMs. Additionally, while cash from one ATM withdrawal can be used for multiple purchases, EFTPOS typically requires a separate transaction at each merchant location visited by the cardholder. These realities differentiate the ATM and EFTPOS systems and highlight the need to delineate consideration of interchange fee reform in the two contexts.

We are not convinced that the recent failure to authorise zero EFTPOS interchange fees warrants designation of the EFTPOS system by the RBA to enable EFTPOS interchange fee reform. While card issuers' product differentiation (ie. fee-free thresholds) and relationship pricing create a competitive issuing environment, there is a real risk that without ongoing investment which is, in part, supported by EFTPOS interchange fees, the EFTPOS system faces the prospect of becoming technically and, potentially, economically inefficient.

By contrast, a mechanism which facilitates efficient access to card issuers by other participants in the EFTPOS system (which would drive competition and may put downward pressure on the gateway fees that most non-acquirers face), is of fundamental importance to the successful evolution of the EFTPOS system. As with ATMs, we believe that access reform in the EFTPOS system is clearly in the public interest and would support any process to implement access reform in a timely, transparent and efficient manner.

The reforms suggested in this letter would benefit Pulse and are in the public interest. I look forward to discussing these initiatives in more detail with the RBA and to Pulse being given the opportunity to actively participate in any reform of the ATM or EFTPOS systems that may be determined by the RBA.

Yours sincerely

[Sgd]

Neville Miles  
Chief Executive Officer  
Pulse International Pty Ltd

CC            Brian Sherman, Chairman, Pulse International Pty Ltd  
               Nigel Adams, Director, Travelex Limited