

Payment Policy & Support

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17 January 2007

Ms Michele Bullock
Head of Payments Policy Department
Reserve Bank of Australia
GPO Box 3947
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Dear Michele

Submission on Credit Interchange Fees

Your Media Release No. 2006-13 of 11 December 2006 indicated that the “backward looking and scheme-specific nature of the weights used in calculating the average interchange fee” would be included in the upcoming review of 2007/ 08. You have asked for our views on whether this particular issue should be considered sooner. You have also asked our view on how the compliance aspects of the credit card, and possibly Visa Debit, interchange standards might be altered to address any concerns about the impact of the standards on competition between the card schemes.

The current standards, including the method of calculation of the average interchange fee and the compliance process, have been established following the reform process and extensive public consultations with interested parties. Based upon this, we have recently undertaken system changes to account for the new benchmark interchange rate as well as the scheme-set transaction rates. In addition, an expensive and time-consuming process of repricing and notifying merchants of the changes has been undertaken.

National Australia Bank does not support any changes outside the scope of the broad payments reform review, which you have already announced. In our view, any decisions taken on the nature of payments standards, including the method of calculation of the average interchange rate and compliance measures, should not be taken in isolation nor accelerated but should form part of the broad review. This is consistent with the RBA’s own stated position that the reforms are “part of a package aimed at improving the efficiency of the overall payments system”.

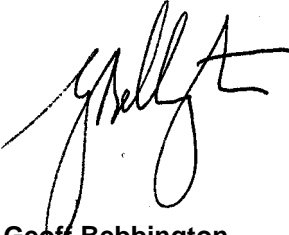
Further reasons underlying our position are:

- There are significant costs, resource implications and complexity in compiling the data for reporting. More frequent reporting will result in increased costs for issuers and acquirers.
- More frequent reporting raises the possibility of more frequent changes to the benchmark interchange rate thereby creating uncertainty for issuers, acquirers and merchants.
- There are significant costs and resource implications for implementing changes to interchange rates. These encompass system changes as well as repricing of individual merchants by acquirers, notwithstanding the result may be neutral at an overall book level.
- The standards have only been recently restated and interchange rates reset. It is too early to assess the implications of the new rates.

- Effects of competition should be reviewed holistically for all parties impacted by the reforms not just the impact of interchange on competition between schemes - only a broad review as proposed for 2007/08 can achieve this.

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

Yours sincerely

A handwritten signature in black ink, appearing to read 'Geoff Bebbington', with a stylized flourish at the end.

Geoff Bebbington
Head of Payments Policy &
Support