

Dr John Veale
Head of Payment Policy
Reserve Bank of Australia
GPO Box 3947
Sydney NSW 2001

Your ref: Media Release No. 2005-02 dated 24/2/2005

Dear Dr Veale,

Credit Card Interchange

We refer to your Media Release No. 2005-02 dated 24 February 2005; specifically the section headed Credit Card Interchange Fees. Under this section the Bank calls for submissions on whether the standards should be amended so that the same benchmark interchange fee applies in all schemes. In response to your invitation, we provide below our comments on the question raised by the Bank.

As a matter of principle we do not believe it is neither equitable nor practical to enable an issuer to effectively benefit from a scheme arbitrage driven by a cost inefficiency between schemes. It would be our view that to allow such an opportunity to exist would compromise the Bank's intent to promote efficiency in the payment system.

Choices as to which scheme an issuer offers to its customers should be based, amongst other things, on such factors like acceptance rather than the level of interchange paid by a scheme. We believe it is important to level the playing field between schemes in order to encourage these to become more efficient and thus, reduce scheme-processing fees and promote normal competitive behaviour.

For this reason, we would support an amendment to the current credit card interchange standard so that the same benchmark interchange fee applies in all schemes.

In the Bank's media release two alternatives are suggested for the calculation of a common interchange benchmark across all schemes. One approach suggested is that the benchmark be based on the costs of the lowest cost scheme. We would not support the adoption of this alternative as a means for the calculation of the benchmark interchange.

At present the lowest cost scheme is the Bankcard scheme at 0.49% (ex-GST). If the costs of the Bankcard scheme were used to derive the benchmark interchange, we would ignore an important difference between the Bankcard scheme and that of the MasterCard and Visa schemes. The important difference between them being the limited international acceptance of the Bankcard scheme (limited only to Australia and New Zealand), compared to both MasterCard and Visa who offer worldwide acceptance.

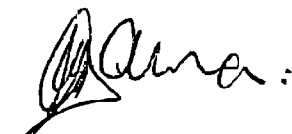
We believe that were we to apply a benchmark based on the lowest cost scheme, in this case the Bankcard scheme, we would be ignoring the inherent difference between the Bankcard scheme and that of MasterCard and Visa and hence, the additional costs borne by the MasterCard and Visa schemes in providing an internationally broad acceptance base.

The second approach suggested in the Bank's media release is to set a benchmark interchange fee based on average eligible costs measured across all three credit card schemes. We would support the adoption of this alternative as a means for calculation of the benchmark interchange fee. While not expressed in the media release, we assume that it is implied that a weighted average of eligible costs would be used rather than just an average. This we consider important to account for the scale differences of each scheme and hence, give substance to the relative importance of the various components of eligible costs.

We believe that a weighted average benchmark interchange fee treats all schemes fairly. Further, it stops any one institution from making changes to their issuing strategy because of the level of interchange paid by a scheme, thus promoting efficiency in the payment system.

Should you require any further information or wish to discuss any comment made in this letter, please do not hesitate to contact me on (07) 3258 4250.

Yours faithfully,



Manuel Garcia
Chief Executive Officer