



Association of Building Societies and Credit Unions

26 April 2012

Dr Tony Richards
Head of Payments Policy Department
Reserve Bank of Australia
GPO Box 3947
Sydney NSW 2001

Sent via: pysubmissions@rba.gov.au

Dear Dr Richards

Review of the Regulatory Framework for the eftpos System

Abacus – Australian Mutuals appreciates the opportunity to comment on the RBA's March 2012 consultation paper *Review of the Regulatory Framework for the eftpos System: Consultation on Designation*.

Abacus represents customer-owned banking institutions. The mutual banking sector comprises 89 credit unions, 7 mutual building societies and 6 mutual banks, with total assets of \$85 billion and 4.5 million customers.

Mutual banking institutions are strong supporters of the eftpos system.

Abacus supports the consultation paper's Option 1, i.e. defining the eftpos system in a new designation as the system based on ePAL's rules and covering participants that are members of ePAL. As noted in the consultation paper, this would recognise the central role that ePAL has taken in the eftpos system and would be similar to the form of the designations for the MasterCard and Visa credit card systems and the Visa Debit system.

We believe this approach best serves the public interest until a final decision is made on the future of the broader framework of the eftpos system.

The introduction of a common multilateral interchange fee schedule for the eftpos system provides transparency and promotes competition in the payment system.

We believe continued designation of the eftpos payments system is in the public interest because a transparent, multilateral eftpos interchange fee standard will:

- reduce the overall cost of the payments system by reducing the cost to cardholders of using eftpos and encouraging greater use of eftpos; and
- increase competition in debit card issuing and acquiring by removing a barrier to entry (i.e. the need to negotiate an interchange fee).

It is disappointing that, three years after ePAL was established, bilateral interchange arrangements persist. This is despite the RBA's recognition of concerns about bilateral

arrangements continuing "indefinitely" in its November 2009 paper *A revised interchange standard for the eftpos system*:

"While the Board acknowledges that this is an important question, it is hopeful that the industry will be able to negotiate this transition in a manner that takes account of the interests of all participants. For the time being, the Board is prepared to give the industry the opportunity to do so."

Large retailers, such as Woolworths, continue to benefit from bilateral eftpos interchange fee arrangements.

This continuing flaw in the system disadvantages small card issuers compared to large banks and disadvantages all small retailers against the two biggest retail companies.

This is particularly disappointing because Woolworths has taken advantage of the RBA's intervention into the scheme debit market to refuse to accept the main competitor to eftpos, scheme debit. This action by Woolworths remains an unreasonable and unwarranted denial of customer choice. The retailer's action disproportionately affects members of mutuals. Credit union and building societies were the earliest adopters and strongest supporters of scheme debit because of the product's superior functionality compared to proprietary debit.

Abacus welcomes confirmation by the RBA that the upcoming broader review of eftpos regulation is likely to consider whether bilateral interchange fees should be placed on a similar footing to multilateral fees.

Yours sincerely

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

Mark Degotardi
Head of Public Affairs