

23 June 2004

Dr John Veale  
Head of Payments Policy  
Reserve Bank of Australia  
65 Martin Place  
SYDNEY NSW 2000

Dear Dr Veale,

**Re: Submission for Reform of Card Payments System (Designation of ATM/EFTPOS payment systems).**

We refer to your letter dated 11/6/04 seeking the views of interested parties on whether designation would be in the public interest.

In relation to this matter we would like to make the following comments:-

1. You state in your media release that The Reserve Bank has responsibility to promote “competition and efficiency” in the Australian payments system. It would seem that up until now we have heard a lot about competition but very little about efficiency. The existing ATM interchange fee system is an extremely efficient means of fee settlement between participating financial institutions. It places all financial institutions on a level playing field. We believe this system should be retained, however there should be a mechanism to review the interchange fee on a regular basis.
2. The proposed Direct Fee charging model is unlikely to provide clients with any benefit flowing from increased competition. On the contrary, it is likely to lead to increased client fees (two fees for each ATM withdrawal) together with lengthy monthly statements listing a myriad of fees. The Rock Building Society’s (TRBS) current fee structure offers borrowers a number of “fee-free” ATM/EFTPOS transactions at Non-Rock devices each month. Under Direct Fee charging this will be no longer the case, as they will still be charged the ATM/EFTPOS Owner fee, which will be debited directly to their account.
3. Direct Fee charging will place TRBS at a competitive disadvantage to larger financial institutions, which have a national ATM/EFTPOS network. A proposed Cashcard ‘network’ interchange arrangement would also not be as good as the existing system, as clients would then need to find participating devices. Whilst “competition and efficiency” are all very well, I am sure clients are more interested in “convenience” in finding an ATM/EFTPOS device that they can use, without having to worry about whether it is a network device or what fees may apply. Our clients currently have fee certainty under the interchange fee system – this will not be the case under Direct Fee charging.

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4. The cost to financial institutions to convert to Direct Fee charging will be very substantial, affecting all areas of ATM/EFTPOS processing. The cost of these changes would ultimately be borne by clients.
5. The overall compliance workload on financial institutions is becoming an operational issue, particularly for smaller financial institutions that do not have the staff resources of the majors. The current ATM/EFTPOS interchange fee system works perfectly well and does not need "fixing". It is very "efficient" and from a "competition" point of view, it simply needs a review mechanism. For example, the ATM interchange fee for withdrawals could be set at 75c (currently \$1.00) and for balance enquiries at 50c (currently 60c).

It is our view that the Reserve Bank should proceed with designation with the purpose of setting a national interchange fee structure and reviewing those fees on a regular basis. The interchange fee structure is by far the most efficient system and with a regular review of the fee structure it should then meet competitive requirements. The Direct Fee charging model should be scrapped.

Yours faithfully,

Yours faithfully,

**Ron Smyth**  
Executive Director.

**Bryan Thomson**  
IT Manager.