

15 October 2004

Dr John Veale
Head of Payments Policy Department
Reserve Bank of Australia
GPO Box 3947
Sydney, NSW 2001

Dear Dr Veale,

As we stated in our submission "Response to RBA on potential designation of EFTPOS and ATMs" in July 2004, the National fully supports the reform of EFTPOS debit card interchange. We believe the objective of this reform should be to achieve a simpler, more efficient and transparent pricing regime for EFTPOS.

The National is still of the view, (as stated in our submissions of September 2002 and July 2004) that the most logical approach to determine interchange for EFTPOS debit cards is to apply the same economic principles used by the Reserve Bank of Australia (RBA) for credit card reform.

If this were so, issuer costs such as transaction processing, authorisation, fraud and fraud prevention would be the only "eligible" costs used to calculate the interchange fee, and would result in a small interchange fee payable by the acquirer to the issuer.

While we would understand why the RBA might rapidly put in place a zero interchange standard to bring about finality to the process, we would, however, favour an approach that applies consistent principles to credit cards, EFTPOS debit and Visa debit.

The move to a multilateral EFTPOS interchange of a small amount paid by the acquirer to the issuer would result in a number of benefits to the public:

- EFTPOS would become more attractive to consumers, as competitive forces are likely to reduce cardholder fees over time, thereby inducing a shift towards the use of EFTPOS and reducing the overall cost of the Australian payments system.
- Entry as a new issuer or acquirer of EFTPOS transactions would become easier by simplifying the negotiation of bilateral interchange agreements.

We would be more than happy to discuss any aspects of the reform of EFTPOS debit card interchange directly with you.

Yours sincerely,



Peter Kempster
General Manager
Payments Australia
National Australia Bank