

12 October 2006

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

Your ref: Media Release No. 2006-06 dated 13/9/2006

Dear Dr Veale

**Submission on the Content and Process for the 2007/08 Review of the Reforms to Card Payment Systems**

We refer to your above referenced media release and specifically, to your invitation to interested parties to make submissions on the content and process for the 2007/08 review of the reforms to the card payment systems.

Thus far through the reforms process, Indue has been a strong contributor and it is our intention to continue this level of involvement through the review foreshadowed by the Bank in its press release.

Our comments in this letter will address firstly, what aspects of the reforms implemented to date should, in our opinion, form part of the review agenda and secondly, our views on the process the review should follow.

Commenting firstly on the content of the review, we believe that the review agenda should include the following:

1. Measure the success payment system reforms have had on lowering consumer prices

It was an important premise through the reform of credit cards that lower interchange fees would translate into lower prices for consumers as the cost of payment options were lowered for merchants.

To this end, it is difficult to conduct any review of the reforms to card payment systems without measuring the extent to which the public interest has been served through the reform process. With this in mind, we believe it is important that we determine whether the reduction in interchange brought about by the reforms has translated into a reduction in costs for the end consumer, or have they simply just reallocated income away from financial institutions to retailers.

2. The behaviour of retailers towards surcharging

Surcharging is not a regulated activity in that the standards issued by the Bank have not sought to place any limitations on the surcharge retailers can levy consumers.

It is important that we establish to what extent merchants are surcharging and importantly, determine what correlation exists between the amount of the surcharge a consumer has to pay and the actual costs of a credit card or Visa Debit payment as levied by the acquirers against the merchants.

3. APCA's role in payment system reforms

Through its work on the EFTPoS Access Code APCA played an important role in the reform of the EFTPoS system. APCA, through its Management Committee 3 administers Clearing Stream 3 which in turn is the payment stream for EFTPoS and ATM transactions.

As we review the reforms of the card payment system, it is important that we acknowledge the role of APCA and determine its most appropriate role in ensuring the ongoing effectiveness of the payment system.

4. Interchange - Visa Debit

The standard for setting interchange for the Visa Debit payment system was, *inter alia*, built on the premise of the efficiencies a larger issuer, such as a major bank, could extract by leveraging its credit card system in order to gain scale advantages for scheme debit. Now that we have two major banks issuing scheme Debit, it is appropriate we test this assumption.

5. Interchange - 'Cash-out'

The separation of 'cash out' transactions from purchases was not something that formed part of the consultation process for the interchange Standard on EFTPoS. While industry data suggest 'cash out' transactions represent only 15% of all volume, it is important that we review the post reform volumes to ensure that there is integrity in the capture of these transactions. This is important in order to avoid any skewing because of the financial difference that now exists in interchange fees between the two transaction types.

6. Impact the removal of the 'honour all cards' rule has had on acceptance

Removal of this rule is important to small issuers like credit unions. The concern is that a lack of acceptance of the Visa Debit product by a merchant, may have the unintended consequence of confusing the cardholder into believing that non-acceptance constitutes a rejection of the financial institution who issued the card rather than the card itself.

It is important that we understand the extent to which acquirers will introduce differentiation in pricing between products (i.e. scheme Debit and credit) so that the cost of processing these payments for the merchant more appropriately reflects the cost associated with a particular payment system. This is important in order to minimise the instances of product rejection because of an acquirer induced cost neutrality between products.

Commenting now on the process the review should follow, we believe that the Bank should again call for submissions on the final agenda items as it has done in the past. In this regard we do not believe a change is necessary to the process previously used by the Bank.

During the consultation process however, we believe consultation should occur at two levels. Firstly, once submissions are received each institution making a submission should be given the opportunity to hold a private discussion with the Bank to go through their submission. Once the Bank has considered all submissions and is in a position to share its preliminary conclusions with the industry, a second consultation should be conducted with the industry at large. At this time the Bank would inform the industry of its preliminary conclusions and give opportunity for the industry to react and give feedback. This consultation should however, be restricted to one delegate from each institution and that delegate should be of an executive level, that is, Executive General Manager or above. The more senior representation at this time should ensure that the Bank receives constructive feedback from executives in the industry who are decision makers within their own organisation.

We look forward to working with the Bank through the 2007/08 Review and 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**