

8 April 2005

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

Submission on Credit Card Interchange

Dear Dr Veale

I refer to the Reserve Bank's media release of 24 February 2005 seeking comment on the need for change to the interchange standards for the Bankcard, MasterCard and Visa systems.

Is there a Competitive Advantage in Different Benchmark Interchange Rates?

Westpac agrees that regulation must be competitively neutral. To this end, the media release notes that "*... the scheme with the highest interchange fee may be at a competitive advantage in encouraging institutions to issue its cards, particularly if the higher fee is not offset by the issuer facing higher costs when issuing cards belonging to that scheme*". This is clearly true, however it is unclear whether there are any cases where higher interchange received are not offset by higher costs. In the absence of any clear evidence, the principle of allowing the schemes to differentiate their offerings is one that should not be discarded lightly.

If there is to be a Uniform Benchmark Rates - Which Option?

If on balance it is decided that the public interest is best served by a uniform benchmark rate across the credit card schemes, our view is that the benchmark must be set in a way that is consistent with Standard No. 1 - The Setting of Wholesale ("Interchange") Fees (the Standard).

Under the options outlined in RBA's media release dated 24 February 2005. The outcome of using either the;

- (i) arithmetic average of the three credit card schemes' benchmark interchange rates, or
- (ii) minimum of the three credit card schemes' benchmark interchange rates,

would result, as a whole, in a different overall level of interchange paid between Acquirers and Issuers than that described as the maximum allowable under the Standard. Option (i) could result in a higher or lower total amount, option (ii) would result in a lower amount. In other words, the proposed options would make the Standard unachievable.

A third option, to use a volume-weighted average of the benchmark rates, would be consistent with the Standard.

In summary, as the stated intention of a uniform benchmark rate is to ensure competitive neutrality (and Westpac makes no comment on whether the existing regime favours one scheme over any other), the uniform benchmark rate should be set by using a volume weighted average.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Sally Herman', written in a cursive style.

Sally Herman
General Manager, Product & Payments