



Wednesday 27<sup>th</sup> April 2005

Dr John Veale  
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Dear Dr Veale

I refer to your request inviting responses to the Reserve Bank's designation of the EFTPOS and Visa Debit payment systems announced on February 24<sup>th</sup>, 2005.

#### **EFTPOS Payment System**

As outlined in our previous submission to the Reserve Bank dated July 2004, Suncorp continues to support the need for reform within the EFTPOS payment system.

Suncorp's issuing base is disproportionately larger than its acquiring base, incurring more than six times the amount of debit card interchange expense from the issuing base than we receive in revenue from our acquiring base.

Implementing an interchange fee based on acquirers' eligible costs will remove the inefficient sharing of costs Suncorp currently experiences due to our issuer/acquirer imbalance.

With a reduced interchange fee, there is also the potential for the cost reductions to be passed on to our customers via changes to fee-free thresholds, account keeping fee reductions and/or a reduction or elimination of excess transaction fees for EFTPOS.

This in turn will lead to the EFTPOS payments system becoming more attractive to consumers and reducing the overall costs of the Australian payments system.

With a reduction to the existing interchange arrangements, a likely outcome is an increase to merchant fees charged by acquirers. Suncorp believes that competitive forces within the acquiring market would minimise these fee increases to a point where the fee reflects the cost of the transaction plus a margin for investment.

In summary, Suncorp supports the implementation of the proposed standards relating to the EFTPOS payment system as outlined in the consultation document.

#### **Visa Debit Payments System**

Suncorp is a significant issuer of the Visa branded debit product in the Australian market. The product has provided our customers' access to the Visa payments system, without requiring a credit card, whether through customer choice or ineligibility. This access enables our customers the ability to participate in secure transactions for example over-the-phone and via the Internet.

Below are the key points, which Suncorp has considered in response to Reserve Bank's designation of Visa Debit:



### **The change in calculation of interchange to align with EFTPOS**

Payment access provided by Visa Debit product incurs a number of additional costs including, but not limited to, additional security features, Visa fees, fraud and bad debt when compared to EFTPOS. Suncorp believes that Visa Debit should be uniquely costed when considering the differences between Visa Debit and other payment methods. To date, issuers of Visa Debit have been able to pass on low transaction costs to customers through not charging for many transactions performed with Visa Debit cards. Also, issuers have been able to provide additional features such as enhanced security and functionality without charging additional fees which can be seen on credit cards, such as annual card fees. Changes to interchange may require issuers to re-consider the pricing structure of Visa Debit.

### **The abolition of the 'honour all cards' rule**

Suncorp believes that the 'honour all cards' rule should be kept in order to encourage competition and the expansion of card payment options for customers, as well as reducing barriers to entry for other industry participants.

The competition ramifications of the 'honour all cards' rule has been raised by other industry participants in previous deliberations of the Reserve Bank's designation of Visa Debit, and Suncorp agrees with the comments previously raised.

### **The introduction of an identifier on all Visa debit cards both visually and electronically to differentiate Visa Debit from Visa credit.**

Suncorp supports the Reserve Bank's proposal to differentiate visually Visa Debit and Visa Credit. This differentiation will continue to support the unique value proposition of the Visa Debit product. However, electronic differentiation may be a challenge across the industry depending on the technical solution adopted. Suncorp believes that the cost/benefit of such a change may not be feasible for some acquirers.

The implementation timeframe for visual changes to the Visa Debit product will also need to be staggered in line with the expiry of cards currently on issue to avoid excessive costs to issuers and consumers.

I trust that the above information assists the Reserve Bank in its deliberations in respect to designation of the EFTPOS and Visa Debit payment systems. If you have any further queries, please do not hesitate to contact me.

Regards

Peter Larsen  
General Manager Lending Customer Management  
SUNCORP-METWAY LTD

cc. Mark Blucher Group Executive Retail Banking Customers