eftpos

eftpos Payments Australia Limited
Suite 2, Level 12
50 Margaret Street
Sydney NSW 2000
GPO Box 126
Sydney NSW 2001
Telephone +61 2 8270 1800
Facsimile +61 2 9299 2885
eftpospayments.com.au

- 5 MAY 2011

3 May 2011

Mr. Alan Tudge MP
Federal Member for Aston
Suite 4, Level 1, 420 Burwood Highway
WANTIRNA SOUTH, VIC 3152

Dear Alan,

I am writing in response to comments raised with you concerning changes to interchange fees announced by eftpos Payments Australia Limited (ePAL) on 8 March 2011.

ePAL is keen that you and your constituents have a full understanding of the changes and the reason they are necessary. I understand any announcement of fee changes brings with it concerns and I hope this letter will put the changes in context.

In essence, the changes to interchange fees are necessary to support investment in eftpos so that it does not follow Bankcard's path and disappear from the Australian payments landscape. They should be considered in light of the significant inroads that the expensive, foreign-owned MasterCard and Visa debit cards are making in Australia.

There are now more than 12 million Visa and MasterCard debit cards on issue in Australia, a figure growing at 300,000 cards per month. These cards are issued in compliance with the 12-cent scheme debit interchange fee standard, a 240 per cent increase on the proposed eftpos interchange fee standard of 5 cents. Without investment in eftpos to meet the needs of merchants and consumers, eftpos will fail. Merchants will be left with no choice other than the expensive Visa and MasterCard schemes, payment processing will go offshore, and profits repatriated to the United States. This is not something any of us want to see.

When speaking with industry bodies such as the Australian Retailers Association and the Council of Small Business Organisations of Australia, it is clear they too see the need to invest in a vibrant and competitive eftpos. The immediate challenge is to provide small business with information they need to minimise any impact in transitioning to the new interchange fee regime (in contrast with the difficulties many businesses experienced in the transition to forced acceptance of MasterCard and Visa debit cards).

With reference to the particular impact on newsagents, I make the point that all merchants, including newsagents, can minimise the impact of the changes by effectively managing their mix of transactions. This means offering cash-out transactions (for which the interchange fee is in their favour), promoting eftpos for transactions below $15 (for which there is no interchange fee) and also requesting from their bank differential pricing between eftpos and the more expensive Visa and MasterCard debit cards. Today, 20% of eftpos transactions are below $20 and 20% of transactions involve cash out.

It is not clear yet what the response by individual banks will be to the new interchange fees (which acquirers incur, not merchants directly). eftpos acquirers operate in a highly competitive market, and they will need to consider carefully their competitive position before making any merchant price adjustments.

For our part, ePAL is urging merchants to speak to their acquirer about obtaining separate pricing for eftpos so they can manage their transaction mix for minimal cost impact. Specifically, merchants should ask their acquiring bank:

- Can I have a breakdown of what it costs me for credit cards, debit cards and eftpos?
- Do you (the acquirer) offer separate pricing for credit cards versus debit cards?
- Do you offer separate pricing for eftpos versus Visa and MasterCard debit cards?
- If I did not want to accept the more expensive Visa and MasterCard debit cards, can you program the terminal to process them as eftpos only?

I hope that the above provides a broader context for this complex issue. Interchange fees are integral to the payments network, in that they facilitate necessary investment in the network in an efficient manner. Without this investment, eftpos will not compete effectively against Visa and MasterCard, merchant costs will rise, consumers will be worse off and your constituents will suffer.

I appreciate your interest in this matter and would welcome the opportunity to discuss it further with you anytime.

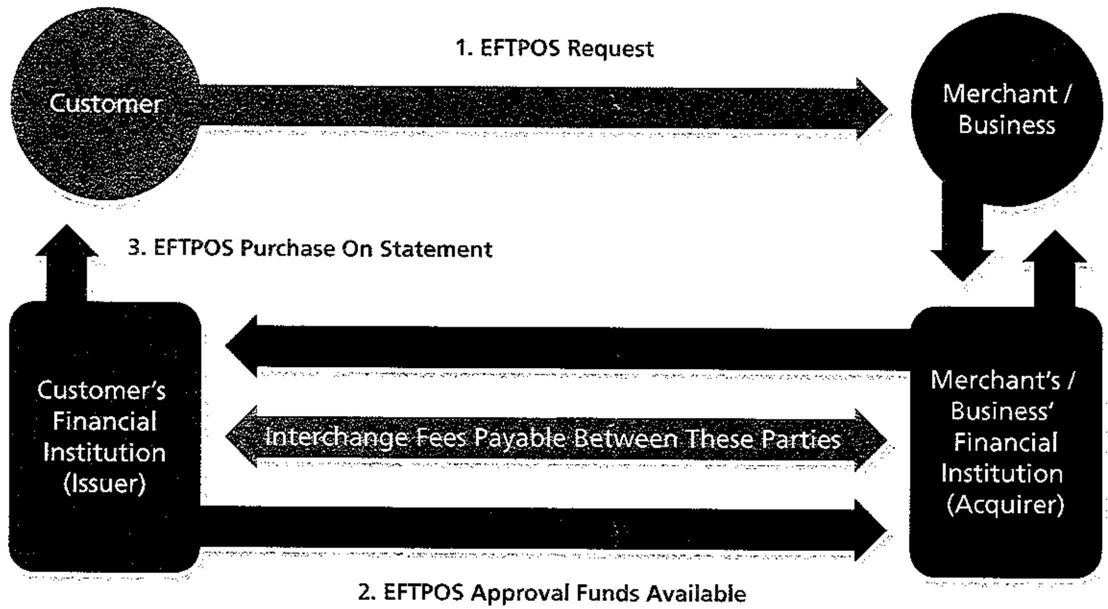
Yours sincerely

Bruce Mansfield

Bruce Mansfield
MANAGING DIRECTOR

EFTPOS ECONOMICS

Payment System Diagram

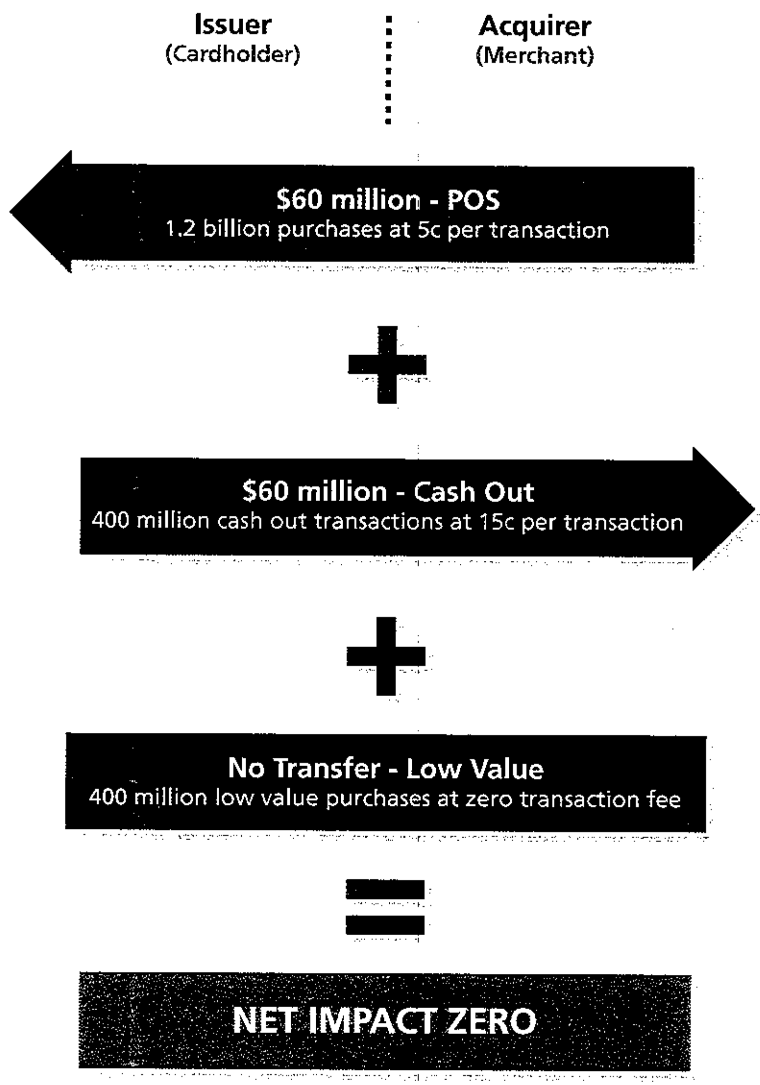


Merchant Service Fee (MSF)

	Interchange Fee	+	Network Fee	+	Internal Costs & Pricing	=	Merchant Service Fee
	Payable to cardholder bank by merchant bank		Payable to network operator (VISA, MasterCard or EFTPOS) by merchant bank		Determined by merchant bank		
EFTPOS*	4c	+	1c	+	xc	=	5c+xc
VISA / MASTERCARD*	4-8c	+	4-8c	+	xc	=	8-16c+xc

*hypothetical scenario based on EPAL estimates and public domain information

Network Interchange Flows



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