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3 April 2003

Mr Paul Palisi
A/g General Manager
Adjudication Branch
Australian Competition and Consumer Commission
PO Box 1199
Dickson ACT 2602

Dear Mr Palisi

Re: Application for Authorisation A30224 and A30225

I refer to your letter of 27 February 2003 to Roger Featherston, Partner, Mallesons Stephen Jaques, which requested further information from applicants in the above matter.

The following provides responses to the Commission's questions where possible. In some instances affected business areas are yet to determine the full effect of the authorisation proposal. For instance, analysis is still being conducted on the implications of the authorisation for debit card acquiring fees charged to merchants (Questions 2.4 and 3.4). As a consequence, it is difficult for ANZ to provide the Commission with a detailed response at present but we will provide a response by 17 April 2003.

Responses to questions 1.2, 2.2, 3.1 and 3.3 have been provided on a *commercial-in-confidence* basis and have been marked in red text.

1.2 What was the average per-transaction cost of EFTPOS interchange in the period 2000-2002?

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1.4 If authorisation were to be granted to the proposed EFTPOS reforms, and with all other factors remaining constant, what effect would this have on the debit card transaction fees charged to customers?

ANZ's transaction accounts are offered and priced as a 'bundle' of transaction services to customers. Customers can transact using branch, EFTPOS, ATMs, phone banking, Internet banking and direct debit channels. The main reason for doing this is to ensure that transaction accounts are simple to use, easy to understand and represent good value to our customers. As a consequence, the price the customer pays for each transaction may not directly reflect the cost of providing that transaction channel.

In February 2002, ANZ restructured its main transaction account offering into two simple and cheaper accounts – Access Advantage and Access Select. Access Advantage offers a package of unlimited transactions through any delivery channel for \$5 per month. Access Select offers six free electronic transactions a month, with all 'excess' transactions charged at 50 cents except for branch, \$2.50 and free unlimited Internet transactions. The excess transaction fee for EFTPOS was cut from \$0.65 to \$0.50.

The restructure followed a commitment in the ANZ Customer Charter to keep account and fee structures simple and transparent and has made ANZ transaction accounts market-leading in terms of value. Since launching the simplified, lower cost accounts ANZ has increased its net account growth to 100,000 per year, about three times the previous rate, which has increased market share by approximately 1 per cent. Access Select, with no monthly account keeping fee, has been the most popular account with about 60 per cent of new openings.

A summary of the old and new account offering is shown in the table below.

	Previous ANZ Accounts – Access Flexible, Access Value, Access Cheque, etc		Access Advantage	
Account Service Fee	\$6		\$5	
Account Service Fee Waiver Balance	\$2000		No waiver except for relationships, 60-plus, children, students	
No of free transactions	8		Unlimited	
Excess transaction \$	Branch	\$2.50	Branch	n/a
	Cheque	\$1.00	Cheque	n/a
	ATM	\$0.65	ATM	n/a
	EFTPOS/Phone	\$0.50	EFTPOS/Phone	n/a
	Internet	\$0.20	Internet	n/a
	Foreign ATM fee	\$1.50	Foreign ATM fee	\$1.50

	Previous ANZ Accounts – Access Simplicity		Access Select	
Account Service Fee	\$0		\$0	
Account Service Fee Waiver Balance	n/a		n/a	
No of free transactions	6 (not including branch or cheque)		6 electronic, unlimited Internet	
Excess transaction \$	Branch	\$2.50	Branch	\$2.50
	Cheque	\$1.00	Cheque	\$0.50
	ATM	\$0.65	ATM	\$0.50
	EFTPOS/Phone	\$0.50	EFTPOS/Phone	\$0.50
	Internet	\$0.20	Internet	free
	Foreign ATM fee	\$1.50	Foreign ATM fee	\$1.50

Children, students and customers aged over-60 receive fee waivers on their Access Advantage account-servicing fee, so that they effectively receive fee-free banking. In addition, since 2001 ANZ has offered Access Basic, a low cost option for Centrelink payment recipients and health care cardholders with 15 free transactions per month through any transaction channel, no minimum account balance and no monthly account-keeping fee.

Only a proportion of all ANZ customers are paying excess withdrawal fees for EFTPOS transactions as a result of fee waivers for relationships (such as home loan customers) children, students and customers aged over-60. For example, in February 2003 ANZ cardholders performed 5.9 million EFTPOS transactions and only 0.6 million (11%) of these transactions were charged directly to customers through the excess withdrawal fee for EFTPOS of \$0.50. Costs of the remaining 5.3 million (89%) EFTPOS transactions were covered in part but not wholly by the \$5 monthly fee for unlimited transactions with Access Advantage or by net interest income.

Given that ANZ recently restructured its transaction accounts into more simple and cheaper packages, so that the cost of EFTPOS transactions is currently subsidised by other forms of income, reduction in the EFTPOS interchange fee to zero will remove the immediate pressure to increase fees on these accounts (bearing in mind ANZ's current market-leading position on pricing) and result in a review of the pricing of the account packages in light of competitor responses in the market. The market for transaction services is a competitive one with most of the 51 banks and 203 building societies and credit unions operating in Australia, supplying transaction services. We would expect therefore that the price of EFTPOS transactions would be reduced.

2.2 What was the total EFTPOS interchange fee revenue for the period 2000-2002?

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2.4 If authorisation were to be granted to the proposed EFTPOS reforms, and with all other factors remaining constant, what effect would this have on the debit card acquiring fees charged to merchants?

At this stage ANZ is examining a number of options for implementing the proposed EFTPOS reforms and their impact on acquiring fees. Given this, we are not yet in a position to provide the Commission with a clear indication of the likely effect on debit card acquiring fees charged to merchants but anticipate that we will be able to provide the Commission with further information by 17 April 2003.

3.1 What was the total cost of funding the interchange fee sharing arrangement for the period 2000-2002?

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3.2 Were interchange fee sharing arrangements entered into with large merchants only?

ANZ only entered into interchange fee sharing arrangements with large merchants.

3.3 Was the cost of the interchange fee sharing arrangement funded from revenue other than EFTPOS interchange fee revenue?

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3.4 In the event that the EFTPOS reforms were to be authorised, do we anticipate continuing to participate in the interchange fee sharing arrangements?

ANZ is considering this issue as part of its examination of the impact of the authorisation proposal on its merchant acquiring services, so we are unable to provide the Commission with a clear indication of whether we will continue with interchange fee sharing arrangements. We anticipate that we will be able to provide the Commission with further information by 17 April 2003.

I hope this information assists in your consideration of this matter. As highlighted, we will endeavour to provide you with further information once it is available. If you have any questions please do not hesitate to contact me on (03) 9273 6323.

Yours sincerely

Jane Nash
Head of Government & Regulatory Affairs