

Media Release

Competition Flowing from RBA Cards Reform

(13 December 2004 – Australia) Nearly all Australia's merchants have experienced price reductions in acquiring charges since the Reserve Bank of Australia's re-regulation of merchant interchange, making service the game breaker for providers seeking new accounts, East & Partners has found.

East's latest six-monthly Merchant Acquiring & Cards Markets report shows a high level of account churn among merchants following their most recent price reviews.

The report finds 6.5 percent of corporates, 8 percent of commercial companies, 6.9 percent of SMEs and 9.1 percent of micro businesses have shifted service provider over the past six months.

The next six months are set to be even more dynamic with almost 16.9 percent of corporates, 18.1 percent of commercials, 15.4 percent of SMEs, and 19.8 percent of micro businesses saying they are "definitely" or "likely" to change service provider.

"With the increased participation in Australia's acquiring and cards markets and consistent rumours of new international entrants, competition is more intense than it's ever been," East & Partners principal analyst Paul Dowling said.

"Some 31 percent of merchants across the market segments the report covers say they have experienced competitive pitches for their business over the past six months.

Merchants Actively Considering	i Change in Supplie	r Relationship
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% of Merchants Considering a Change in Next 6 Months

	Corporate	Commercial	SME	Micro	Total
Yes, definitely	4.6	6.8	6.3	11.0	7.9
Yes, likely	12.3	11.3	9.1	8.8	9.8
No	62.0	52.0	48.5	42.2	49.1
Don't Know / Unsure	21.1	29.9	36.1	38.0	33.2
TOTAL	100.0	100.0	100.0	100.0	100.0

Source: East & Partners Merchant Acquiring & Cards Markets Report – December 2004

"Nearly 29 percent of these say they will definitely change service provider in the next six months. Historically about 50 percent of these do in fact take their business elsewhere," Mr Dowling said.

"As is the case with transaction banking generally, quality service is the key to stemming the flow of customers to other service providers and keeping an existing merchant customer base happy.

"Merchants want payments settled quickly, they want their service provider to demonstrate that they want them as a customer, they want reliable terminals, and of course, they're always looking for value for money from their bank or service provider," Mr Dowling said.

The report finds that credit cards are the dominant receivables form for corporates with the second fastest forecast growth rate for 2005 of 11.3 percent.

For SMEs, cards remain significantly behind cheques but have faster forecast growth of 21.8 percent through 2005. Debit cards show parallel comparisons, with a significantly higher growth forecast in the SME and micro markets of 38.0 percent and 29.8 percent respectively through 2005.

	% of	% of Annual Receivables			
	December 2004	June 2004	June 2005 (estimated)		
Corporate	40.6	41.0	45.2		
Commercial	32.9	33.2	36.6		
SME	21.6	21.8	26.3		
Micro	26.6	_	26.9		

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