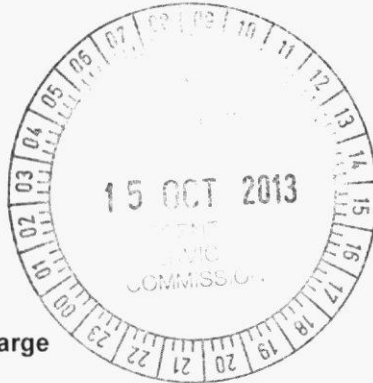


10 October 2013

Andrew Chow
Director Transport
Essential Services Commission
Level 37
2 Lonsdale Street
Melbourne Victoria 3000



Dear Andrew

Non-Cash Taxi Payment Surcharge

We understand that recent amendments to the *Transport (Compliance and Miscellaneous) Act 1983* (the "Act") empower the Essential Services Commission (the "Commission") to regulate the amount that may be surcharged for electronic taxi payment transactions.

We believe that there are a number of issues that the Commission should consider in making its determination on the maximum allowable surcharge. We have gone through the Act and related submissions and other documentation.

While we agree that a surcharge of 10% is on the high side, we believe that the short term benefits of reducing the surcharge to 5% could well see consumers and taxi drivers deprived over the longer term of the benefits that they have enjoyed in recent years as a result of increased competition and increased efficiency in the means of making payment. This result would be contrary to the objectives of the recent amendments to the Act.

Our firm, Investors Mutual Limited, has followed the electronic taxi payments industry for over a decade. We have previously been a substantial shareholder in Cabcharge, we have throughout been a corporate customer of the industry, and our opinion has often been sought in relation to the regulation of various other industries in Australia such as the telecommunications and other essential service industries.

Innovation

We believe that the Commission should be conscious of encouraging innovation within the electronic taxi payments industry. It is only if there is sufficient financial incentive that existing and potential new providers will continue to innovate.

Innovation of course benefits customers with many things, including better convenience and security. As an example, Cabcharge has spent considerable time and funds to develop tap-and-go technology that allows customers to conveniently tap their card over an in-taxi terminal to effect an electronic payment. Today, over 40% of Visa and MasterCard transactions are processed on Cabcharge's terminals using this contactless technology, evidencing the convenience that customers enjoy with the technology. In another example, a number of new entrants such as InGoGo have very recently entered the market with new smart phone apps that they have developed to allow customers to book and pay for taxis through the app. If properly incentivised, innovation will continue.

The innovation within the taxi payments industry also has flow-over benefits. For example, Cabcharge has been able to apply the intellectual property it has built up over the years in the industry towards a new business it formed in 2008 called EFT Solutions. While a loss making business for Cabcharge, this business is an EFTPOS software development and consultancy business that operates in Australia and Europe and whose clients include Westpac, Woolworths and Australia Post. New developments innovated in the context of the taxi payments industry may continue to benefit other parts of Australian commerce or enable an Australian business to succeed by taking their innovation overseas.

Since the days when taxi fares could only be paid with using cash, Cabcharge and others in the industry have developed increasingly efficient, convenient and secure means of processing electronic payments. In

the context of the difficulties unique to processing electronic transactions in taxis, and acknowledging that many developed countries still only allow cash payments in taxis, the progress the industry in Australia has made towards efficient and convenient payment methods should not be underestimated.

The Commission should be conscious of ensuring that there is a return above the costs of operation that encourage the innovation that has allowed the industry to develop in the past as it is costly to operate the networks that allow electronic payment.

Competition

We believe that the Commission should be conscious of keeping alive and promoting ongoing competition in the industry.

Up until late last decade, Cabcharge was alone in offering network services that allow the electronic payment of taxi fares. In recent years, new competitors have entered the market and a number of them have been very successful. A report issued by Macquarie Research in May 2013 that analysed Macquarie Bank's corporate card expenditure in fact shows that GM Cabs has achieved an equal market share to Cabcharge in respect of the bank's taxi expenditure.

The new competition has given rise to a number of benefits.

Two examples are as follows:

- Competition encourages innovation for the benefit of customers. For example, Cabcharge's tap-and-go was largely encouraged by developing capability beyond what could be offered by all the competitors.
- Competition has benefited taxi drivers as they now share in the electronic payment surcharge. GM Cabs, Live TaxiEpay and other new competitors entered the market with an offer that was underpinned by their paying a commission to taxi drivers who use their system. This offer was one of the main factors in their success. Taxi drivers enjoyed no such financial benefit before the competition entered the market. Commission payments have now become significant to drivers as a source of their income.

Our discussions over the years with industry players has revealed that the commission can be as high as 5% of the fare, which is equivalent to 50% of the surcharge. We understand that new smart phone app provider InGoGo currently offers all taxi drivers a commission of 5%. In response, Cabcharge began offering taxi drivers a commission of 2.5% in late 2012.

The Commission should be conscious that setting a low maximum surcharge such as the 5% prescribed in the Act is in our view far too low and will lead to a lack of innovation and actually reduce competition from the market over time.

We understand that there are considerable costs in operating an electronic payments network. These costs include driver commissions, payments to the schemes such as Visa and American Express, transaction charges, bad debt expenses, equipment lease costs, client "acquisition" costs, and general corporate costs. For example we are aware that American Express charges at least one operator a fee of 4% of the fare for Amex payments. Incidentally, American Express justifies this fee level on the basis that taxi payments are high risk and low value. The justification is evidence of the unique difficulties in processing electronic taxi payments.

In conclusion, we would thus caution the Commission against setting the surcharge at too low a level as, in our view, this will deprive drivers and customers of the benefits of innovation and competition over time.

We would be happy to discuss our views in further detail.

Yours sincerely


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