

Australia's Retail Payments Reforms

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Retail Payments Reforms

Four topics

- The RBA's credit/charge card reforms
- The RBA's debit card reforms
- Governance and technology issues
- 2007-08 Review



Credit Card Reforms

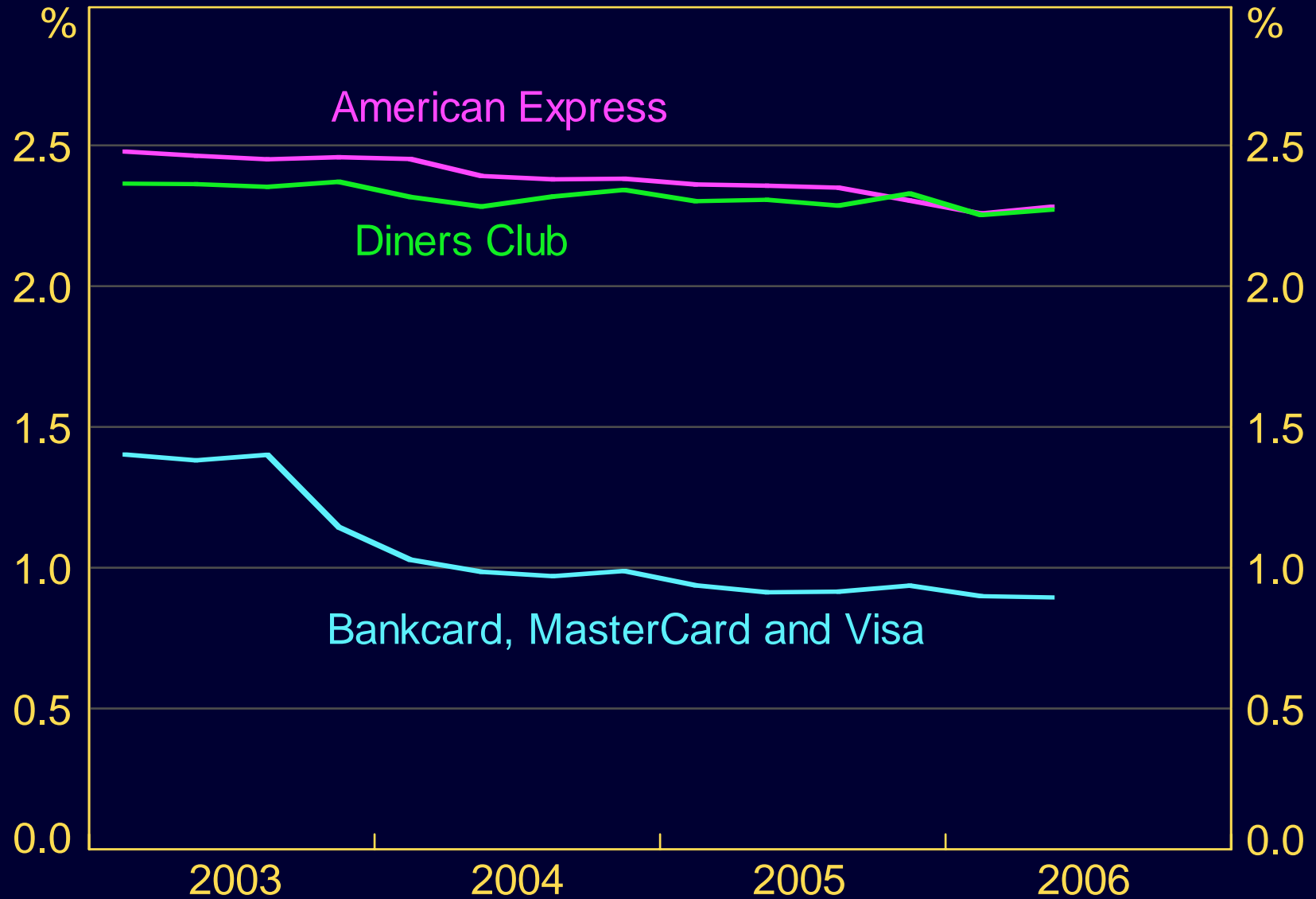
Four main elements:

- Interchange fee Standard for 4-party schemes
- Remove restrictions on merchants
 - No surcharge, anti-steering
- Improved access arrangements (SCCIs)
 - Schemes' acquirer/issuer balance rules also amended
- Increased transparency



Merchant Service Fees

Per cent of transaction values acquired



Source: RBA



Effects to Date

Merchant service fee reductions

- Net savings around \$730m p.a.
- Savings flow to consumers – including those without a credit card



Effects to Date

Changed price signals to cardholders

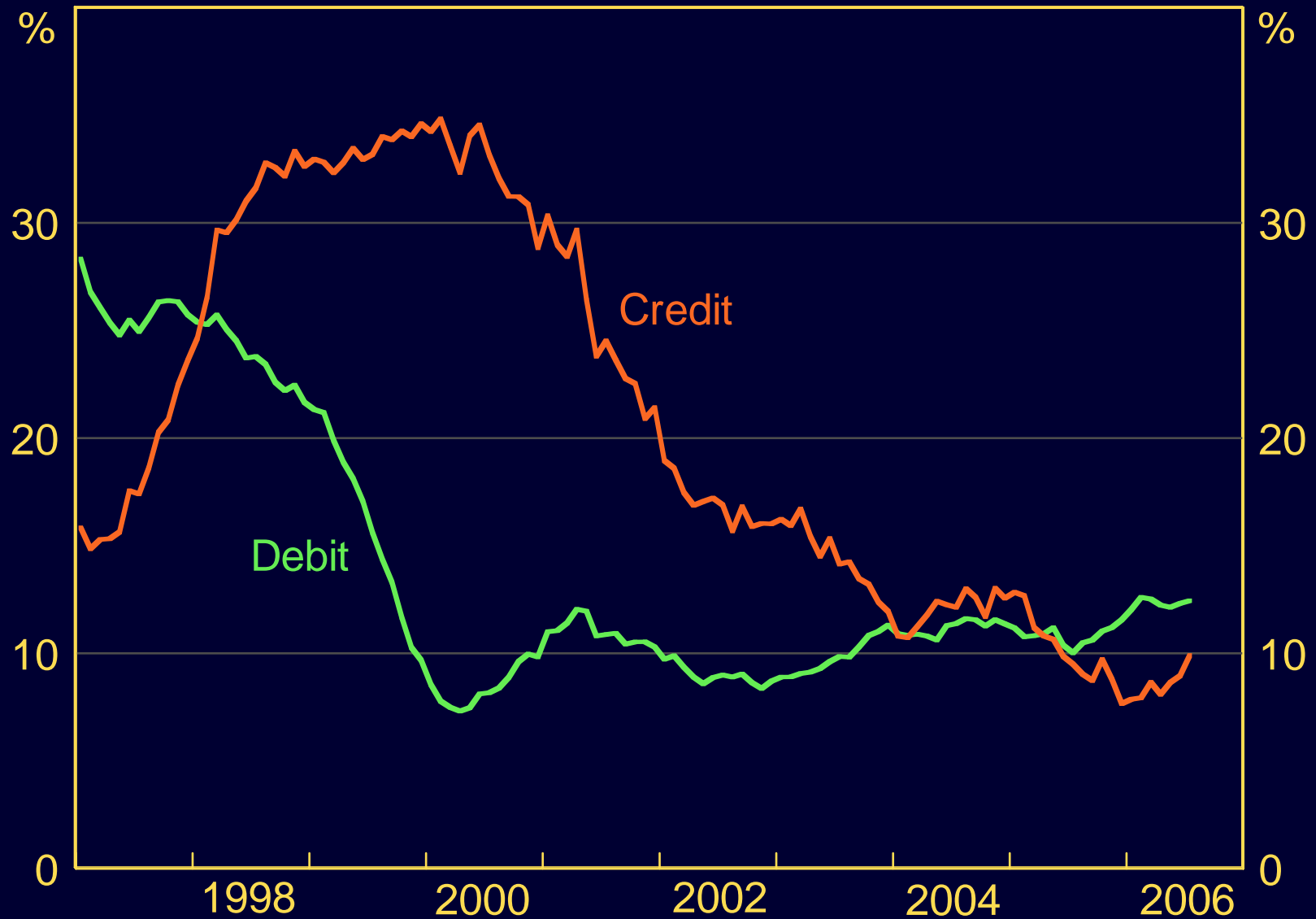
- Reduced reward points
- Some surcharging
- Increased annual/reward scheme fees

Effect on payment patterns?



Value of Card Payments

Year-on-year growth



Source: RBA



Effects to Date

Increased competition in card issuing and acquiring

- Drop in 4-party merchant service fees since 2003 exceeds interchange fee cut



Effects to Date

Increased competition in card issuing and acquiring

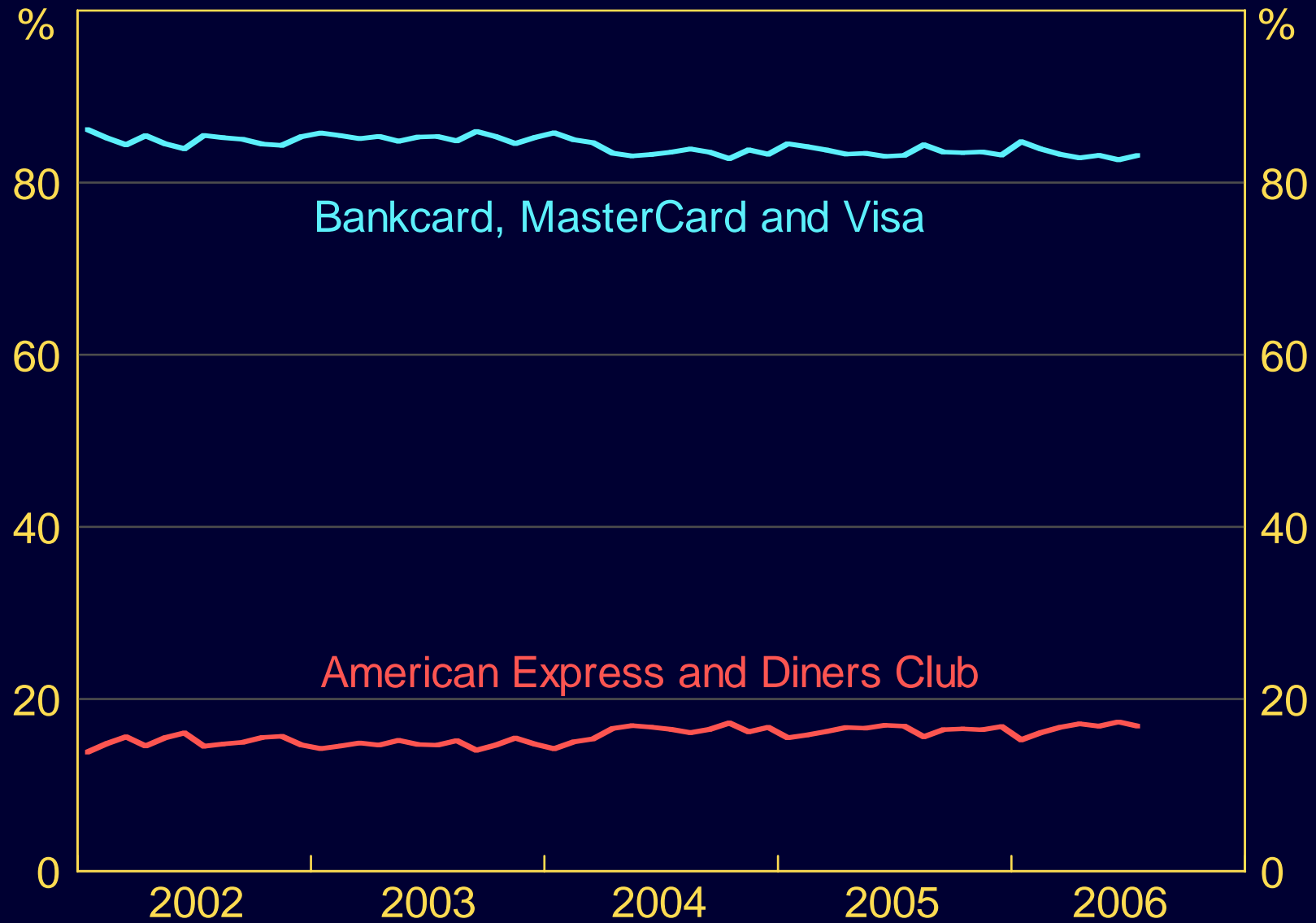
- Drop in 4-party merchant service fees since 2003 exceeds interchange fee cut

Little change in 3-party vs 4-party market shares



Market Shares of Card Schemes

By value of purchases



Debit Card Reforms

Finalised more recently – primarily April 2006

- Reforms cover the EFTPOS and scheme debit systems
- Form a package with the credit card reforms
- Later implementation partly due to legal hurdles (Australian Competition Tribunal ruling; challenge to EFTPOS designation)



Debit Card Reforms

Four main elements

- EFTPOS interchange Standard
- Visa Debit interchange Standard
- EFTPOS Access Code/Regime
- Removal of 'honour all cards' restrictions in the scheme credit and debit systems



Debit Card Reforms

Reforms complement the earlier credit card changes

- Unbundle acceptance decisions for merchants



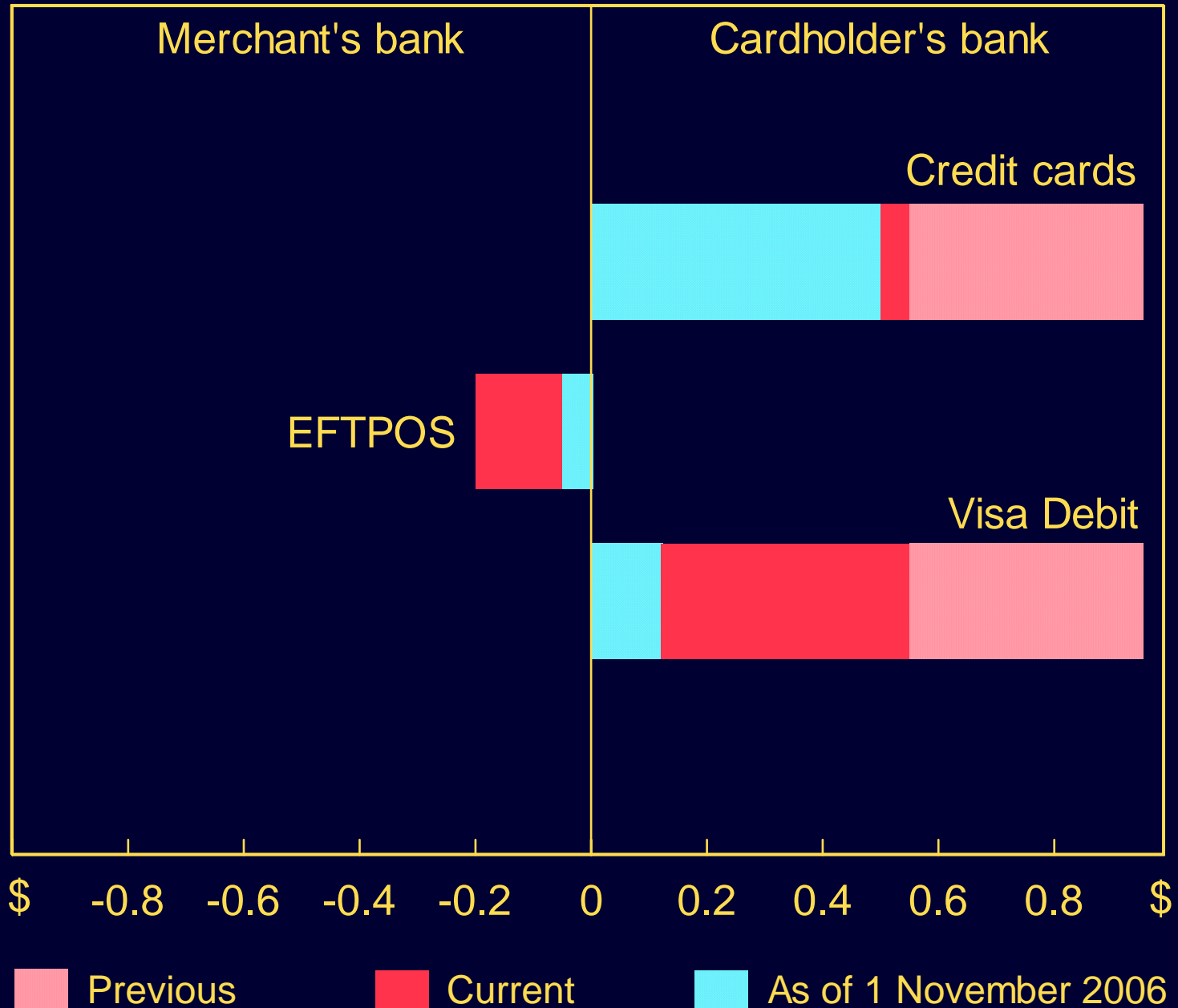
Debit Card Reforms

Reforms complement the earlier credit card changes

- Unbundle acceptance decisions for merchants
- Reduce interchange differentials between EFTPOS, scheme debit and credit cards



Interchange Fees on a \$100 Payment



Governance and Technology

Bank's reforms so far have focussed on

- Interchange fees
- Access
- Restrictions on merchants
- Transparency

Reforms should enhance competition/efficiency within the *current* retail payments framework

- What about dynamic efficiency?



Governance and Technology

- Impact of bilateral vs multilateral linkages?
 - Lack of strong central entities able to drive change in systems where co-operation by many participants is required



Governance and Technology

- Impact of bilateral vs multilateral linkages?
 - Lack of strong central entities able to drive change in systems where co-operation by many participants is required
- RBA looking to promote awareness and encourage industry-led response, rather than mandate solutions



Future Steps

2007-08 Review

- Flagged in 2002 as part of the credit card reforms
- RBA seeking views from interested parties on structure and scope
 - RBA sees periodic and public review as very important

