

## **QUESTION ON NOTICE FROM MR ANTHONY ALBANESE**

### **Background**

In the Governor's appearance before the House of Representatives' standing Committee on Economics, Finance and Public Administration on 6 June, the following questions on BPay were put to him by Mr Albanese:

“Why is it that banks charge an interchange fee of 64c on BPay – bill payments – if you pay from a savings account; whereas if it is done through EFTPOS there is no interchange fee, something that you have supported? Why the distinction there and what is the bank's view of that? Secondly, in terms of BPay interchange and the ACCC review of it, why didn't you undertake a review and what is your view of the ACCC decision to essentially take no action – hands off?”

In response, the Governor said that he could not answer the question on the spot, but undertook to take it on notice.

### **What is BPay?**

BPay is a bill payment system owned by a group of Australian banks including the four major banks. It began operation in 1997 and latest data indicate about 10 million transactions a month are made through the system; this compares to total non-cash retail payments of about 350 million a month. It allows consumers to pay billers using the telephone or the Internet by accessing funds in either their savings account or credit card account.

### **Interchange Fees**

Interchange fees are fees paid between the financial institutions of the person receiving the payment and the person making the payment when transactions occur in some payment systems. In Australia, interchange fees are paid in the four party credit card systems (Bankcard, MasterCard and Visa), the EFTPOS system, ATM networks and in BPay (where it is called a Capture Reimbursement Fee). No other payment systems in Australia have interchange fees.

An interchange fee can shift the balance of costs and revenues between the participants in a payment system. The case for interchange fees in any particular payment system needs to be examined in the light of costs and benefits to participants in it. There is no single answer for all payment systems. For example, the Australian cheques and direct entry systems operate without interchange fees. In the Joint Study it undertook with the ACCC over 1999/2000, the Reserve Bank looked at the economic case for interchange fees in three systems - ATMs, EFTPOS and credit card services. These systems were chosen because they account for a very large proportion of retail payments in Australia and they all have interchange fees. BPay was not included as it had only been operational for a couple of years and accounted for a very small number of transactions. After analysing detailed data on costs and revenues in Australia's EFTPOS system, the RBA concluded that there was no justification for an interchange fee in that system.

As Mr Albanese notes, BPay has an interchange fee; 59 cents paid by the biller's financial institution to the payer's financial institution.

Even though they both originate payments from savings accounts, EFTPOS and BPay payments are very different and conclusions about costs and revenues from one system may not apply to the other. As discussed above, BPay is a system built for bill payments by phone or using the Internet in which both customers and billers pre-register information. By contrast, the EFTPOS system was primarily designed for transactions at the point of sale. Customers swipe their cards in a terminal and authorise the transaction using a PIN. When used for bill payments, the EFTPOS payment is done "over the counter" either directly at the institution doing the billing or more commonly at an agency appointed by the billing institution such as a post office. The EFTPOS system cannot currently be used to make payments over the telephone or Internet.

With the two processes being so different, we would not necessarily expect institutions' costs and revenues to be the same and thus the case for interchange arrangements to be the same.

The legal basis for BPay interchange arrangements in terms of the *Trade Practices Act* were reviewed by the ACCC in 2002/03. The ACCC looked at the collective setting by BPay member banks of interbank fees incurred in BPay transactions to determine whether the collective setting of these fees had the effect of fixing, controlling or maintaining the level of fees charged by banks to billers for the BPay service (contrary to section 45A of the *Trade Practices Act 1945*). It concluded that the current BPay arrangements do not breach the Act because those arrangements do not have the effect of controlling or maintaining the fees charged by banks to billers for BPay services. This legal question is a matter for the ACCC, not the Reserve Bank.

As it does with all aspects of the payments system, the Bank will continue to monitor BPay to see whether further detailed study is required.

Secretary's Department  
30 July 2003