



House Economics Committee recommends improvements in payments system technology

A new report tabled by the House of Representatives Economics Committee today is recommending the banking industry implement innovations such as PIN authorisations for credit cards, online functionalities for EFTPOS cards and incorporating the latest chip technology into all cards.

The report into the Reserve Bank of Australia (RBA) and Payments System Board annual reports 2005 focuses on two aspects of the Reserve Bank's responsibilities—the payments system; and monetary policy.

Committee Chairman, Bruce Baird, said today "the payments system, in particular, has been an area of contention in recent times. The RBA has pursued what some have termed an 'aggressive' reform agenda, with the consequences of those reforms subject to considerable debate."

The most contentious payments system reform issue has been reductions in credit card interchange fees. The RBA argues that its reduction of these fees has resulted in cardholders facing truer price signals when using their cards, while also saving merchants and ultimately consumers millions of dollars each year.

Conversely, opponents of the reform—Visa and MasterCard, among others—argue that there is no evidence of savings being passed through to consumers. They also argue that American Express and Diners Club have been unfairly advantaged by the reforms.

Mr Baird said "while the committee was not wholly convinced by either argument, it concluded that the benefits of the reform, at this point, outweigh any alleged disadvantages."

The committee also investigated other payments system reforms, including the lowering of EFTPOS and scheme debit interchange fees, the removal of the 'honour all cards' rule and the removal of the 'no surcharge' rule. Mr Baird said "generally speaking, the committee found the RBA's rationale for these reforms reasonably sound".

The report's only recommendation surrounds payments system technology. "There was consensus during the committee's evidence that Australia has fallen behind in terms of payments technology," Mr Baird said. "The committee therefore recommended that those involved in the industry implement a number of innovations, including PIN authorisations for credit cards, online functionalities for EFTPOS cards and chip technology for all cards."

In terms of monetary policy, the RBA reported to the committee that Australia's economy is in a strong position—now in its 15th consecutive year of growth. However, the Governor of the RBA, Ian McFarlane, did highlight some potential issues looking forward, namely: a "high" current account deficit despite favourable export prices and terms of trade, increasing levels of household debt, and capacity constraints—all of which are reoccurring themes from the hearings in 2005.

The full committee report may be found at:

<http://www.aph.gov.au/house/committee/efpa/rba2005/report.htm>

The committee's next public hearing with the Reserve Bank of Australia will on be held on Friday, 18 August, at the Tattersalls Club, 181 Elizabeth Street, Sydney.

To arrange media comment: Please contact the committee chairman, Hon Bruce Baird MP on (02) 6277 4814 or 0418 611 668 (mobile).

For further information: Please contact the committee secretariat on (02) 6277 4209, email efpa.reps@aph.gov.au or visit online from the committee's website