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Other matters

RBA Board voting

- 3.1 In response to a query as to whether the two recent rate rises were unanimous decisions of the Board, the Governor asserted that he was unwilling to answer, the reason being that the basis of the current system is that voting patterns are not disclosed. Mr Macfarlane stressed that he felt quite strongly about the principle of nondisclosure of voting patterns.
- 3.2 The rationale behind this policy is that the RBA's Board is comprised of people representing the broader community, from such sectors as retailing, agriculture and mining, and it would be impossible for them to do their job if their vote were disclosed.

When these people come to the Reserve Bank board, they have to forget their sectional interests. They have to come along and say, 'I am making a decision for the whole economy; I am not making a decision for the sector that I come from.' To get them to do that, you have to provide them with the fact that their statements and their votes are confidential, otherwise they will be put under public pressure to revert to being simply sectional advocates.¹

¹ *Official Hansard*, 8 December 2003, Brisbane, p. 10.

RBA in regional areas

3.3 The RBA's regional offices, located in Brisbane, Melbourne, Perth and Adelaide, conduct meetings with businesses, industries and local government and provide feedback at regular meetings held in Sydney. The information gathered is discussed and collated, so that it can be utilised within the forecasts and assessments that the economic department of the RBA makes.²

3.4 In terms of expanding the reporting role of the RBA's regional offices, to resemble that of the US Federal Reserve District System, the Bank asserted that such a move is beyond its capabilities and resources. In comparison each US Federal Reserve District has more resources:

They are really quite large organisations and they can support a body of economists—there are perhaps a dozen economists in each one—and it is a massive infrastructure, which we do not have. I think it would be a bit ambitious for us to do anything that resembles what is in the [US Federal Reserve] beige book. But I take your point that maybe we should make more reference to regional differences where the regional differences are significant enough to influence our interpretation of how the national thing is moving.³

Regulation of borrowing mechanisms

3.5 The issue of whether there needs to be increased regulation in the methods by which financing can be obtained was raised by the Committee at the Brisbane hearing. A number of financing instruments currently available, for example deposit bonds, do not fall under the jurisdiction of authorised deposit-taking institutions (ADIs) and as such are not subject to Australian Prudential Regulation Authority (APRA) rules and regulations.

3.6 Mr Macfarlane commented that he was not sure how the RBA would handle this. He noted for instance that financing with deposit bonds, particularly for people who use them to buy something that they resell before settlement, would be quite difficult to regulate. However, in regards to the use of this specific borrowing mechanism, the

2 *Official Hansard*, 8 December 2003, Brisbane, p.13.

3 *Official Hansard*, 8 December 2003, Brisbane, pp. 34-35.

Governor remarked that its use was declining, as illustrated by many developers and vendors not accepting them as evidence of a deposit.⁴

- 3.7 The Governor also stated that he was unsure how to approach the new trend whereby lenders make loans and, rather than retain them on their books, securitize and sell them onto the market. He claimed that whilst some of these lenders are doing an excellent job, there are some at the fringe whose actions are reckless. In terms of tackling this group he did not have a suggestion. However, Mr Macfarlane asserted that APRA was attempting to remedy this situation, by examining the practices of institutions which fall under its regulatory jurisdiction.
- 3.8 The Committee has resolved to review APRA's *Annual Report 2003* and will pursue this matter further during the relevant public hearing.

Credit cards

- 3.9 The RBA informed the Committee of its progress in the reform of credit cards. The Governor noted that, since the last public hearing in June 2003, the legal challenges brought against the RBA's reforms to credit card schemes by MasterCard and Visa were dismissed by the Federal Court. Moreover, whilst both schemes appealed, Visa has subsequently decided to cease its action.
- 3.10 The new interchange fees for Bankcard, MasterCard and Visa which came into effect at the end of October 2003 have achieved almost a 50 percent reduction in interchange fees. The RBA is now monitoring the flow-on of these savings to merchant service fees. The Governor asserted that whilst data in this area was still being collated, anecdotal evidence collected thus far 'suggests that merchants are starting to see a reduction in the merchant service fee they pay to banks'.⁵
- 3.11 **According to the RBA, credit cards are, for both cardholders and merchants, the most expensive way of making a payment. The Governor noted that the banks make greater profits from credit card transactions than cash, cheque, EFTPOS or direct credit transactions.** The Governor commented on the marketing strategy of the banks:

4 *Official Hansard*, 8 December 2003, Brisbane, p.19.

5 *Official Hansard*, 8 December 2003, Brisbane, p.5.

Their marketing strategy was to make it as cheap as possible for the cardholder so that the cardholder would want to use their credit card all the time. Therefore, each time the credit card got used, the merchant would have to pay over a significant sum of money to the banks. That was the marketing strategy. We did not like that strategy because the cardholder was not seeing the true cost of what they were doing.⁶

- 3.12 The RBA asserted that through reform it is endeavouring to make the true cost of credit cards visible to customers. By reducing credit card interchange fees, the banks are being forced to increase direct charges to credit card holders. The Governor contended that this move is necessary to bring credit cards more into line with other payment systems.⁷
- 3.13 In response to questions from the Committee about whether competitive pressures in the credit card sector are adequate, the Governor responded that 'if that competitive pressure comes from someone outside the industry, it is very effective'.⁸
- 3.14 Mr Macfarlane stated that he was unsure as to which outside, non-traditional players would have the capacity to provide the necessary competitive pressure in this sector. However, the RBA drew attention to the experiences of the US where commercial rivalry has been relatively successful, due to a number of non-traditional firms recognising that providing credit card services to merchants can be a profitable business. In fact over the last 15 or 20 years non traditional players have increased their participation in this sector to such an extent that they now perform more than half of it.
- 3.15 The RBA suggested that specialisation in the business of issuing credit cards is also likely to develop in Australia due to its reforms. However, the Bank did emphasise that change in this area will not occur immediately, and that society will need to be 'patient to see the effects of increased competition'.⁹
- 3.16 The Committee will consider inquiring into aspects of competition and transparency in the credit card sector in 2004.

6 *Official Hansard*, 8 December 2003, Brisbane, p.24.

7 *Official Hansard*, 8 December 2003, Brisbane, p.24.

8 *Official Hansard*, 8 December 2003, Brisbane, p.25.

9 *Official Hansard*, 8 December 2003, Brisbane, p.26.

- 3.17 In respect to the issue of whether the RBA's reforms have created an uneven playing field, advantageous to closed card schemes such as Diners Card and Amex, the Governor asserted that this is not the case as the RBA has not only reduced the interchange fee on four party schemes but has also ended the prohibition that the closed card schemes imposed on merchants passing on their costs to customers. These moves should lead to greater competition, as merchants can now afford to utilise not only four party systems but also three party card systems, by charging customers more for using credit cards.¹⁰

BPay

- 3.18 The RBA's original study on interchange fees (conducted in 1999-2000 in partnership with the ACCC) did not include BPay, due to its relatively small size at that time:

The figures showed that the average bank customer had three BPay transactions a year whereas they had 50 or 60 credit card and debit card transactions a year.¹¹

- 3.19 In its November 2003 report, the Committee noted its concern with the apparently high level of the BPay interchange fee. The Committee was of the view that the RBA should undertake an immediate review with the objective of ensuring that BPay interchange fees are reduced to a reasonable level.¹²
- 3.20 The RBA at the Brisbane hearing did however stress that this situation is in the process of being remedied. The RBA is talking to the banks about BPay and intends to conduct a thorough study of the economics of this payment system in order to determine whether the current interchange fee is reasonable or whether there should be an interchange fee at all.¹³
- 3.21 The Committee will pursue this matter further with the RBA at the next hearing.

10 *Official Hansard*, 8 December 2003, Brisbane, p.27.

11 *Official Hansard*, 8 December 2003, Brisbane, p.27.

12 House of Representatives Standing Committee on Economics, Finance and Public Administration, *Review of the Reserve Bank of Australia Annual Report 2002*, November 2003, p.31.

13 *Official Hansard*, 8 December 2003, Brisbane, p.27.

ATM fees

- 3.22 Currently, someone wishing to utilize a foreign ATM – that is, an ATM not owned by their bank or financial institution - is charged a foreign ATM fee. Most customers are unaware as to what this fee is until after the transaction has taken place, usually when they receive a statement.¹⁴
- 3.23 The RBA indicated that the banks are likely to shortly approach the ACCC in order to propose the elimination of the current interchange fee of approximately one dollar, which underpins the average foreign fee of about \$1.35.¹⁵
- 3.24 The aim of this reform is to achieve greater transparency and competition in relation to ATM fees. It may lead to ATM owners using signs on their machines to set out foreign ATM costs to customers. Individuals would then have the necessary information to decide whether or not to make a transaction on a particular machine.
- 3.25 Progress on this reform will be further discussed with the RBA at the next hearing.

RBA Board composition and attendance

- 3.26 The Governor commented at the Brisbane public hearing that he was quite happy with the current board membership, which in terms of its composition is quite unique when compared to other central banks throughout the world.
- ... our board is unusual by the standards of most central banks in that it is a lay board and yet it is a decision-making board. It is not just a group of economists, and I am comfortable with that.¹⁶
- 3.27 The Committee queried whether the RBA Board is in need of greater expertise. In reply, Mr Macfarlane stated that whilst he did not personally think that this was necessary, he noted that there are some people who do. Moreover, the Governor asserted that the current approach to the Board's composition is the most appropriate, given

14 *Official Hansard*, 8 December 2003, Brisbane, p.29.

15 *Official Hansard*, 8 December 2003, Brisbane, p.29.

16 *Official Hansard*, 8 December 2003, Brisbane, p.31.

that Australia has a history of this type of board and it has gained widespread acceptance:

... in Australia people take comfort from the fact that it is not just a lot of high priests sitting up there making this decision, that there are practical people who have to be persuaded and who come at the issue from a different direction. I think that gives it strength.¹⁷

- 3.28 In respect to attendance at RBA Board meetings, Mr Macfarlane noted that currently it is quite good, stating that 'if you went back 10 or 20 years, the attendance was never as good as it is now'.¹⁸
- 3.29 The Governor also referred to his communications with the Treasurer before and after board meetings. The Governor has a regular pattern of meetings with the Treasurer after board meetings to discuss the economy and any possible risks. Also, the Secretary of Treasury as a member of the board is sent a board paper prior to meetings; therefore, the Treasurer would be informed prior to board meetings about recommendations to be put to the board regarding interest rates.¹⁹

Foreign exchange market

- 3.30 In recent times the RBA has been successful in the foreign currency exchange market, a point substantiated by the fact that it has made considerable gains via the purchase of Australian dollars at 47c and 50c and their subsequent sale at 73c.²⁰
- 3.31 In respect to this success, the question was raised by the Committee at the Brisbane hearing as to whether the appreciation of the Australian dollar will notably impact upon the RBA dividend to the government. The Governor stated that in the short term the bearing on the dividend would be small.

... the profit is not realised until we actually sell the foreign currency. The profit is realised when we sell foreign currency, not when we buy it. That means that the profit is actually realised during the periods when the Australian dollar is

17 *Official Hansard*, 8 December 2003, Brisbane, p.31.

18 *Official Hansard*, 8 December 2003, Brisbane, p.31.

19 *Official Hansard*, 8 December 2003, Brisbane, p.30.

20 *Official Hansard*, 8 December 2003, Brisbane, p.32.

weak, when we are selling foreign currency to buy Australian dollars. We can re-establish a profitable position when the Australian dollar is strong, but it is only an unrealised profit. It becomes a realised profit when we sell the foreign currency.²¹

Regulating property investment promotions

- 3.32 In light of the recent demise of a prominent property investment promoter, the Committee at the Brisbane public hearing raised the issue of whether there is a need for both Commonwealth and state regulation in the area of property investment promotions. The Governor noted that the situation has evolved where many people who claim to be real estate agents are making money out of financial advice, often in situations involving a considerable conflict of interest because course participants are encouraged to purchase property off seminar convenors.
- 3.33 The Governor commented that he was not sure what the final solution to the problem should be, however, he stressed that a system must be implemented in some form in order to regulate people who are essentially giving financial advice, and to ensure that people who give financial advice are regulated equally.²²

Conclusion

- 3.34 The public hearing in Brisbane again demonstrated the value of the Committee's biannual hearings with the RBA. The hearing was well-attended by the public, student groups and others, and as always attracted considerable interest from financial markets and the media. The Committee looks forward to continuing this productive process at its next hearing with the RBA.

David Hawker MP
Committee Chair

March 2004

21 *Official Hansard*, 8 December 2003, Brisbane, p.32.

22 *Official Hansard*, 8 December 2003, Brisbane, p.32.