

Payments system

- 3.1 A safe and efficient payments system is essential to support the day to day business of the Australian economy and to settle transactions of the Australian financial markets.
- 3.2 The RBA has important regulatory responsibilities for the payments system and plays a key role in its operations. These responsibilities include:
- regulatory responsibility for the payments system, controlling risk and promoting efficiency and competition;
 - providing facilities for final settlement of payments system obligation; and
 - participating in the system as banker for the Australian Government, some state governments and other customers.¹
- 3.3 The Governor advised that in recent years greater attention has been given to the efficiency of the payments system; in particular, looking into the various means of payment and the associated costs of providing and using them. This is particularly important in the retail payments system as over 10 million non-cash payments are made every day.² People can use five basic ways to pay for something

1 Reserve Bank of Australia. About the Australian payments system. [www.rba.gov.au/Payments System/AustralianPaymentsSystem/about_the_australian_payments_system](http://www.rba.gov.au/Payments_System/AustralianPaymentsSystem/about_the_australian_payments_system), viewed 7 March 2005, p 2.

2 *Payments System Board Annual Report 2004*, RBA, Sydney, p 1.

namely, cash, cheque, credit card, debit card (EFTPOS) and electronic crediting and debiting.³

- 3.4 At the hearing, Mr Macfarlane commented that when the RBA started the payments system reform process it was concerned that the most expensive of these five main types of payments, the credit card, was the most used by customers.⁴ The RBA stressed that in a purely competitive market this would not be the outcome.⁵
- 3.5 He said the first reform was to reduce “interchange fees” of which customers were unaware. Interchange fees were reduced by 50 per cent which reduced these fees amongst banks by around \$500 million per annum.⁶
- 3.6 He noted that one of the main impediments to reform is the lack of competition in the payments area and lack of transparency with respect to the true cost of using each type of payment.⁷
- 3.7 In the case of credit cards, it is the merchant who is initially paying the costs to use the credit card to the issuer (banks). In most cases, the cardholder sees it as a free instrument and in some cases it also has additional benefits by way of frequent flyers points or other bonus schemes.⁸
- 3.8 Each time someone uses a debit card or EFTPOS, the issuer (bank) does not receive an income, therefore it is in the issuer’s (bank) interest to get people to use the form of payment that maximises its return.⁹
- 3.9 According to Mr Macfarlane, the simplest way to make the payments system more efficient is to enable the merchants to charge the customers for using different types of cards etc.¹⁰ He noted that the removal of the “no surcharge rule” has not been rushed by most merchants because they have had over 50 years of absorbing those fees and have factored those fees into their business.¹¹

3 *Transcript*, 18 February 2005, p 33.

4 *Payments System Board Annual Report 2004*, 2004, RBA, Sydney, p 2.

5 *Transcript*, 18 February 2005, p 33.

6 *Transcript*, 18 February 2005, p 33.

7 *Transcript*, 18 February 2005, p 34.

8 *Transcript*, 18 February 2005, pp 34-35.

9 *Transcript*, 18 February 2005, p 34.

10 *Transcript*, 18 February 2005, p 35.

11 *Transcript*, 18 February 2005, p 35.

- 3.10 The RBA stated that unlike the other areas of banking and finance, such as mortgages where there are 30 banks and 200 mortgage brokers, the payments system is not conducive to the same level of competition. This system is a network and for any new entrant to participate they will have to get agreements with everyone in the system to accept the use of their proposed system of payment.¹²
- 3.11 The solution, according to the Governor, may not be regulation but rather, trying to open up these areas to more competition.
- 3.12 He noted that not surprisingly, one of the barriers to making the payments system more transparent and efficient is the legal challenges from some of the key stakeholders as evidenced by:
- merchants challenge to the Payments System Board (PSB) when attempting to reduce debit cards fees to zero which was seen as a form of collective price setting; and
 - Visa's and MasterCard's attempt to stop the PSB from lowering credit card interchange fees.
- 3.13 On the 24 February 2005, the PSB released draft standards for the EFTPOS and Visa Debit payments systems for public comment. The proposed standards seek to address the distortions in price and costs of using the different types of payments.¹³ The draft standards propose to:
- reduce the EFTPOS interchange fees paid to the merchant's bank from around 20 cents per transaction to around five cents.¹⁴ Currently this fee brings in approximately \$170 million per annum which is divided up between the banks and the big retailers;¹⁵
 - reduce the Visa Debit interchange fee paid to the cardholder's bank from an average of around 40 cents, to a maximum of around 15 cents;¹⁶ and
 - remove the current requirement that merchant's accepting Visa credit cards also have to accept Visa Debit cards (it would also

12 *Transcript*, 18 February 2005, pp 35-36.

13 *Payments System Reform, RBA Media Release*, 24 February 2005, p 1.

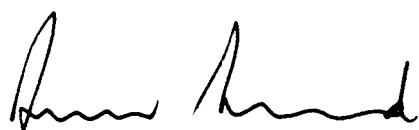
14 *Payments System Reform, RBA Media Release*, 24 February 2005, p 1.

15 This is an industry estimate based on an average EFTPOS interchange fee of 20 cents multiplied by the total number of EFTPOS transactions per year (refer Reserve Bank of Australia, *Statistical Tables, Bulletin*, February 2005, RBA, Sydney, Table C2 Debit Card Statistics, p S28.)

16 *Payments System Reform, RBA Media Release*, 24 February 2005, p 1.

formally apply the no-surcharge standard to the Visa Debit scheme).¹⁷

- 3.14 In the same media release, the RBA announced that it does not intend, at the current time, to regulate the American Express and Diners Club card payments system and in return, both American Express and Diners Club have agreed to:
- reword clauses in their merchant agreements that currently prohibit merchants from encouraging cardholders to use another card; and
 - publish the average merchant service fee in Australia on a quarterly basis. Diners Club has already done so.¹⁸
- 3.15 The Bank also called for submissions on whether the credit card interchange fees standards should be amended so that the same benchmark interchange fee applies in all schemes (Bankcard, MasterCard and Visa).¹⁹
- 3.16 The committee will discuss the progress of these reforms at its next meeting with the RBA. It will also follow any public campaigns undertaken by the PSB to raise awareness about the fees and charges applied to the various methods of payment. In this regard, the committee was pleased to read an article by Ross Gittins in the Sydney Morning Herald, 2 March 2005, entitled "Unravelling the plastic money maze".²⁰ This article sets out to trace the different fees and charges arising from the use of credit cards, EFTPOS and Visa debit in simple plain language for the community.



The Hon Bruce Baird MP

Committee Chairman

17 March 2005

17 Payments System Reform, *RBA Media Release*, 24 February 2005, p 2.

18 Payments System Reform, *RBA Media Release*, 24 February 2005, pp 2-3.

19 Payments System Reform, *RBA Media Release*, 24 February 2005, p 3.

20 Ross Gittins. Unravelling the plastic money maze. *Sydney Morning Herald*, 2 March 2005.