

**National Association of Retail Grocers of Australia**  
**NARGA AUSTRALIA PTY. LIMITED**

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Dr John Veale  
Head, Payments Policy Department  
Reserve Bank of Australia  
65 Martin Place  
SYDNEY NSW 2000

Dear Dr Veale,

We very much appreciated the opportunity to meet you and your colleagues on 30 July last to discuss issues related to the proposed reforms to the credit card system.

Based on that discussion, we understand the RBA's current thinking is that the proposed reforms:

- will result in greater transparency in the setting of interchange and merchant fees
- will improve access for new players
- will result in lower interchange and merchant fees, which will put pressure on other card issuers, e.g., American Express, to reduce their merchant fees
- will result in such fees being based on a range of objective costs shared by beneficiaries of the credit card system, but excluding costs which the RBA believes are more appropriately borne by the banks, such as marketing/loyalty programs and the interest free period
- will bring about no significant overall change in consumer behaviour in the use of credit cards *vis a vis* other payment methods
- may result in increased use of cash or debit cards
- will result in less cross-subsidisation of credit card use by people who either do not hold or do not use credit cards
- that changes to the interest free period, if they were to occur, would have little or no impact on most card holders (given that 75% of cardholders have revolving balances)
- that, at least in some circumstances, merchants would be able to offset the greater cost of the three-party credit card system by imposing surcharges on card holders

## 2.

- in any case, that lower interchange and merchant fees for the four party system would generate downward competitive pressure on fees for the three party system and store cards and perhaps discourage the major chains from issuing their own credit cards.

In our view, reform of the four party credit card system will bring about changes which are unclear and may not result in the “reasonably predictable” outcomes envisaged by the Reserve Bank.

We wish to reaffirm the views we expressed to you and your colleagues that:

- the four party system has, in general, worked well in the past, allowing small and medium businesses to offer credit to their customers through a system and at a cost which has proven acceptable to those customers
- the four party system has facilitated competition between small businesses and big businesses
- any reforms which encourage the use of cash impose additional disproportionate costs on small and medium businesses
- any reforms which encourage the use of store cards and three party cards, such as by increasing the cost to customers of the four party system *vis a vis* other payment methods, will disadvantage small and medium businesses *vis a vis* large corporations
- it is essential that the reforms be monitored closely and continuously to ascertain the impact on small businesses and their customers so that any necessary remedial action can be taken as soon as possible.

We have noted the discrepancies in the “cost of payment instruments” figures derived from the Australian Retailers Association and the Mastercard/PwC surveys. While the methodology of each of these surveys differs significantly from the other, we suggest that neither methodology is a satisfactory basis for the formulation of RBA policy. The ARA’s figures would appear to be skewed towards large retailers and cover a limited range of costs and the Mastercard/PwC sample was too small. We believe a more complete and accurate survey is required, perhaps under the guidance of a steering committee including the RBA, the Australian Bureau of Statistics and appropriate industry representation.

Finally, we wish to reiterate the caution included in our earlier paper: it seems to us to be likely that some of the changes which will result from the RBA’s proposals may entail unintended consequences, including migration from the four party system to store cards, cash or the three party system, each of which would have an adverse impact on small businesses. For that reason, if the proposed reforms proceed, we believe that close and continuous monitoring of the impacts of the reforms will be essential, with a view to further intervention in necessary.

3.

We accept your assurances that the Reserve Bank will closely monitor the impact of its reform package and at the end of 6-12 months will move, if necessary, to fine tune its reforms to address any unintended consequences which disadvantage the legitimate interests of small business. We reserve the right to make a further input in due course as the impact of the reform package starts to emerge.

We shall, of course, be available for further discussion with you or your officers if you require it.

Yours sincerely,

ALAN MCKENZIE  
NATIONAL SPOKESMAN