Australia’s Retail Payments Reforms

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Retail Payments Reforms

Four topics

• The RBA’s credit/charge card reforms
• The RBA’s debit card reforms
• Governance and technology issues
• 2007-08 Review
Credit Card Reforms

Four main elements:
• Interchange fee Standard for 4-party schemes
• Remove restrictions on merchants
  – No surcharge, anti-steering
• Improved access arrangements (SCCIs)
  – Schemes’ acquirer/issuer balance rules also amended
• Increased transparency
Merchant Service Fees
Per cent of transaction values acquired

Source: RBA
Effects to Date

Merchant service fee reductions

• Net savings around $730m p.a.
• Savings flow to consumers – including those without a credit card
Effects to Date

Changed price signals to cardholders
• Reduced reward points
• Some surcharging
• Increased annual/reward scheme fees

Effect on payment patterns?
Value of Card Payments

Year-on-year growth

Source: RBA
Effects to Date

Increased competition in card issuing and acquiring

• Drop in 4-party merchant service fees since 2003 exceeds interchange fee cut
Effects to Date

Increased competition in card issuing and acquiring

• Drop in 4-party merchant service fees since 2003 exceeds interchange fee cut

Little change in 3-party vs 4-party market shares
Market Shares of Card Schemes
By value of purchases

Bankcard, MasterCard and Visa

American Express and Diners Club
Debit Card Reforms

Finalised more recently – primarily April 2006

- Reforms cover the EFTPOS and scheme debit systems
- Form a package with the credit card reforms
- Later implementation partly due to legal hurdles (Australian Competition Tribunal ruling; challenge to EFTPOS designation)
Debit Card Reforms

Four main elements

• EFTPOS interchange Standard
• Visa Debit interchange Standard
• EFTPOS Access Code/Regime
• Removal of ‘honour all cards’ restrictions in the scheme credit and debit systems
Debit Card Reforms

Reforms complement the earlier credit card changes

• Unbundle acceptance decisions for merchants
Debit Card Reforms

Reforms complement the earlier credit card changes

• Unbundle acceptance decisions for merchants
• Reduce interchange differentials between EFTPOS, scheme debit and credit cards
Interchange Fees on a $100 Payment

- Merchant's bank
- Cardholder's bank

- EFTPOS
- Visa Debit

Credit cards

Previous
Current
As of 1 November 2006
Governance and Technology

Bank’s reforms so far have focussed on
• Interchange fees
• Access
• Restrictions on merchants
• Transparency

Reforms should enhance competition/efficiency within the current retail payments framework
• What about dynamic efficiency?
Governance and Technology

• Impact of bilateral vs multilateral linkages?
  – Lack of strong central entities able to drive change in systems where co-operation by many participants is required
Governance and Technology

• Impact of bilateral vs multilateral linkages?
  – Lack of strong central entities able to drive change in systems where co-operation by many participants is required
• RBA looking to promote awareness and encourage industry-led response, rather than mandate solutions
Future Steps

2007-08 Review
- Flagged in 2002 as part of the credit card reforms
- RBA seeking views from interested parties on structure and scope
  - RBA sees periodic and public review as very important