

CECS Advisory Council

Update on Payments System Reforms

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24 July 2008**

The Review

- ❑ Commitment made in August 2002
- ❑ Covered all the reforms to date
- ❑ Cost and use studies
- ❑ Conference November 2007

The Issues

- Competitive forces acting on interchange fees
- Continued close oversight necessary
- Key questions
 - improve competition further?
 - distortion too pervasive?

The Evidence

- ❑ Improved price signals
- ❑ Surcharging

Merchants Surcharging Credit Cards*

Per cent of surveyed merchants



* Very large merchants are those with turnover greater than \$340 million, large merchants \$20 million to \$340 million, small merchants \$5 million to \$20 million and very small merchants \$1 million to \$5 million.

Source: East & Partners Pty Ltd

The Evidence

- ❑ Improved price signals
- ❑ Surcharging
- ❑ Honour-all-cards modifications
- ❑ Average interchange fees

Preliminary Conclusions

- ❑ Reforms have met objectives
- ❑ Close oversight necessary
- ❑ Some reforms to remain in place
 - no-surcharge
 - honour-all-cards
 - access

Options Considered

1. Status quo

- 0.5 per cent cap on credit interchange
- 12 cents cap on scheme debit interchange
- no cost studies
- compliance annually
- no cash out exemption for EFTPOS

Options Considered

2. Reduce interchange further

- 5 cents cap (paid to issuer) on scheme debit and EFTPOS interchange
- 0.30 per cent cap on credit interchange

Options Considered

3. Remove interchange regulation
 - strong competitor to international card schemes (EFTPOS)
 - further modifications to honour-all-cards
 - transparency of scheme fees

Feedback

- ❑ Option 3 favoured by FIs
- ❑ Merchants still support zero interchange
- ❑ Network choice
- ❑ Caps on surcharges
- ❑ Disclosure of surcharges
- ❑ No surcharge rules for start-up systems

Feedback

- ❑ Honour-all-cards
- ❑ Voluntary cap on interchange fees
- ❑ Different debit interchange fees
- ❑ EFTPOS and online payments
- ❑ More guidance on what is required by August 2009

