

# **PROPOSED CHANGES TO THE CREDIT CARD INTERCHANGE STANDARD**

**Response to RBA's  
Proposed Changes to the Credit Card Interchange Standard  
A Consultation Document – July 2005**

Westpac Banking Corporation  
ABN 33 007 457 141

August 2005

## **Executive Summary**

Westpac would prefer to be working towards a situation where the interchange rate was set by the market, rather than further regulation.

The principle of allowing differentiation (and hence competition between the schemes) is strong and should not be discarded lightly. We do not see any public interest or public detriment that will necessarily arise from this reform.

If the reform does take place, we are comforted that the impact will be minimised by taking the weighted-average approach proposed in the Consultation Document.

## **Regulated Interchange Standard**

RBA has recently stated that no it has no way of determining what the optimal interchange rate should be “...*there is little guidance as to what constitutes an optimal set of fees in a world where there are multiple competing payments systems each with different costs at the issuing and acquiring ends ...*”, (excerpt from Phillip Lowe’s speech at the Federal Reserve Bank of Kansas City Conference on 'Interchange Fees in Credit and Debit Card Industries: What Role for Public Authorities?' Santa Fe - 4–6 May 2005). With this in mind, there is a serious risk that the regulation of interchange rates has a social cost.

## **Allowing Differentiation is Important**

As noted in our previous submission on this matter (dated 8 April 2005), we see the principle of allowing differentiation (and hence competition) as being an important one. Accordingly unless there is a clear public interest benefit, regulating conformity between competitors appears unnecessary. The evidence to hand does not seem to demonstrate sufficient public interest.

Given RBA’s uncertainty around the optimal set of interchange fees, we urge caution when considering further regulation of interchange fees.

## **Volume Weighted Formula**

Notwithstanding the above comments, we take some comfort in that the proposed formula to calculate the “common benchmark” will be a weighted-average. This minimises the change to interchange rates and hence the risk of adverse outcomes.

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