Reviewing Australia’s Payments System Reforms – A Progress Report

Cards & Payments Australasia
Sydney
11 March 2008

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Overview

- The review process
- Input to the review
  - consultation
  - use of payment instruments
  - costs
- The regulation debate
- ATM reform
The Review Process

- Commitment from 2002
- Conference, November 2007
- Consultation document, April 2008
The Consultation Process

- Interchange regulation most contentious
- Three broad positions
  - continue regulation
  - remove all regulation
  - remove interchange regulation
- Self-regulation?
Use of Payment Instruments

- Diary study
- Focus on consumers
- First reading on use of cash
Payment Share by Number

- Cash
- BPAY
- Other
- Credit
- Scheme debit
- EFTPOS
- Cheque
Cost of Payments

- Relevance to policy
- Joint study, 2000
- Updated study, 2006/07
Aggregate Costs of Payments by Individuals

- Around 0.8 per cent of GDP
Total Payment Costs*
Per average transaction for each payment method

Credit card
- Consumer: $0.60
- Merchant: $0.40
- Financial institution**: $0.20

EFTPOS
- Financial institution**: $0.60

Cash
- Financial institution**: $0.40

* Resource costs excluding account overhead costs
** Including costs of currency production for cash
The Regulation Debate

- What is the market failure?
- Have the reforms met their objectives?
- Are there alternatives to interchange regulation by RBA?
  - removal of restrictions
  - self-regulation
Removal of Restrictions

- Surcharging increasing
Merchants Surcharging Credit Cards
Per cent of surveyed merchants

Very large merchants
Large merchants
Small merchants
Very small merchants

Source: East & Partners
Merchants Planning to Apply a Surcharge
Per cent of surveyed merchants

Source: East & Partners
Removal of Restrictions

- Surcharging increasing

BUT

- Surcharging difficult at point of sale
- Pressure on interchange fees still up

- Removal of further restrictions?
Self-regulation

- Nothing concrete yet
- Would schemes be part of it?
- Would it include ‘self-regulation’ of interchange fees?
- How to bind participants?
- How to include various stakeholders?
ATMs

- Process underway
- Board’s preferred date October 2008
- Industry targeting March 2009
Potential Advantages of New System

- Competition between ATM operators
- Transparent pricing to consumers
- ATMs at more costly locations
- Foreign ATM fees disappear?
Foreign ATM Fee at Four Largest Banks*

*Simple average of foreign fees on main transaction account at each bank

Sources: Cannex; RBA calculations