CECS Advisory Council

Update on Payments System Reforms

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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

%

%  12

8

4

0


Very large merchants

Large merchants

Small merchants

Very small 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
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