Australian Smart Cards Summit 2008

Update on Payments System Reforms

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Outline

- Recap of reforms
- The Review
- Preliminary conclusions
Recap of Reforms

- Regulations on interchange fees
Interchange Fees on a $100 Payment
Excluding GST

- EFTPOS (Merchant’s bank)
- Pre reform

- Credit cards (Cardholder’s bank)
- Scheme debit (Cardholder’s bank)
Interchange Fees on a $100 Payment
Excluding GST

<table>
<thead>
<tr>
<th>Merchant’s bank</th>
<th>Cardholder’s bank</th>
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<tbody>
<tr>
<td>EFTPOS</td>
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- Credit cards
- Scheme debit

Source: RBA

Pre reform
Post reform

$
Recap of Reforms

- Regulations on interchange fees
- Removal of restrictions
  - no-surcharge rule
  - honour-all-cards rule
Recap of Reforms

- Access
  - credit cards
  - EFTPOS
Recap of Reforms

- Transparency
  - interchange fees
  - merchant service fee
  - market shares
  - access criteria
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
Preliminary Conclusions

- Step back from interchange regulation?
- EFTPOS system
- Honour-all-cards
- Transparency of scheme fees
Recap

- Continued close oversight necessary
- Most reforms to remain in place
- Possibility of de-regulation of interchange
- Opportunity for industry to step forward