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Speech

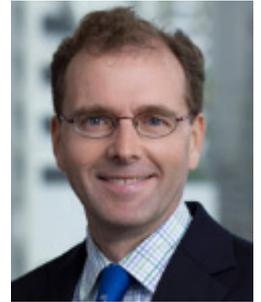
What's on the Cards?

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Australian Payments Network Summit

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I would like to thank AusPayNet for the invitation to join you today.

The Reserve Bank released an Issues Paper around ten days ago to begin the 2020 Review of Retail Payments Regulation. Today I'll give you an overview of what's in the Issues Paper and what the process will look like, and will give you the opportunity to ask any questions or make any initial comments on the Review.

Our previous review was conducted in 2015/16. Going into that review, the Payments System Board had a few key areas of concern.

One concern was the introduction of new higher interchange fees. The highest credit interchange rate had risen to 200 basis points and high debit rates were also being introduced. Given the way that the hierarchy of fees was set, these high fees were falling disproportionately on smaller merchants.

So among the changes that were made to the Bank's standards at the end of the Review, the Bank imposed caps on the highest interchange fees that could be imposed—80 basis points for credit and 20 basis points or 15 cents for debit. As a result, there has been a significant narrowing in the range of fees, and small merchants are less disadvantaged.

A second concern was the drift above the Bank's interchange benchmarks that could result from the three-yearly compliance cycle. So the changes coming from that review included the introduction of quarterly compliance points. This, plus the narrowing of the interchange fee schedules, has significantly reduced the amount of any drift above the benchmarks.

Another concern was the growth in issuance of companion cards and implications for competitive neutrality between three- and four-party schemes. Following the review, the Bank designated the

American Express companion card system, and made any interchange-like fees subject to the 50 basis points benchmark. The result has been a more level playing field, and incidentally also a further fall in merchant service fees charged by the three-party systems.

Finally, we—and many stakeholders—were concerned about excessive surcharging by a small number of merchants. So the review tightened the definition of the cost of acceptance and introduced new measures to improve transparency for merchants – acquirers must now provide merchants with data on monthly and annual costs of acceptance. In addition, the Government gave the ACCC investigation and enforcement powers. Since then, there have been a few enforcement actions by the ACCC and a few high profile merchants – most obviously the two large domestic airlines – have significantly lowered their surcharges.

We do not feel that there as many 'burning issues' for review on this occasion. However, it is good practice to review regulatory frameworks periodically. Plus, there are a few issues relating to the cost of electronic payments that recent reports from the Black Economy Taskforce and the Productivity Commission have suggested we review.

While the Review will focus on the Bank's existing standards dealing with card payments, the Board considers it is important that it is holistic and considers how card payments fit within the broader retail payments system.

There is a lot happening in payments, and we are likely to see significant change over the next few years, possibly from developments such as 'stable coins', expansion of closed-loop systems, other potential sources of disintermediation, and – perhaps more hypothetically – central bank digital currencies. And we are continuing to see a gradual decline in the use of cash in transactions and a sharp fall in the use of cheques.

Accordingly, it seems appropriate to give stakeholders the opportunity to comment on any broader trends in the payments system that may have relevance for the Review or which should be addressed independently of it. One possibility is that this could point to some gaps in the services that the payments system is providing to end-users, or areas where some collective industry investment might be desirable. If so, it might point to the need for some form of follow-up to the 2010–12 Strategic Review of Innovation, such as the Bank setting a new set of strategic objectives for the industry. One of the broad landscape issues is the possibility of some coordination or consolidation in the three domestically-focused payment schemes or systems; namely BPAY, eftpos and NPPA. Another is the future of the cheque system.

The Issues Paper then goes on to ask some fairly specific questions on a range of subjects. However, as the Governor noted this morning, many of them relate in one way or other to the question of measures that might be considered to help bring down the cost of electronic payments.

Accordingly, the Issues Paper devotes a fair bit of attention to least-cost routing and dual-network debit cards. Least-cost routing is intended to give merchants the opportunity to choose their default network for contactless transactions. We have asked for stakeholder views on the experience to date with least-cost routing and whether the Bank should take any additional steps to enhance competition and efficiency. Related to this, we are also asking a question of what options might be

considered to enhance competition in the provision of acquiring services to merchants. More broadly, we are also asking for stakeholder views on dual-network debit cards, and the implications of the ongoing shift in card 'form factors' away from plastic cards and towards tokenised credentials.

The Issues Paper also refers to the Productivity Commission's recommendations and asks whether interchange fees should be lowered further. Here, we note that the European Commission has introduced quite low caps – 20 basis points for debit and 30 basis points for credit. It would have been good to already have some hard evidence on the effect of these caps, but unfortunately the EC's study of this has been delayed.

We have also asked a question as to whether it might be desirable for there to be greater transparency of scheme fees. Scheme fees arrangements are complex and not particularly transparent, and information from some stakeholders suggests that scheme fees on acquirers have been growing over time and are representing an increasing proportion of merchant service fees.

Finally, we have also asked for stakeholder views on how the surcharging framework for card payments is working, and whether provisions dealing with no-surcharge rules should be applied to other arrangements, including buy-now-pay-later schemes.

Let me conclude on the process from here.

The Issues Paper is the first stage in the Review process. We have asked for submissions by 31 January. Reserve Bank staff will then have meetings with stakeholders to discuss their responses. It is difficult to give a firm timeline after that, as the consultation is quite wide-ranging and we are keeping an open mind as to the scope of any regulatory changes that might be required. However, I expect that the staff will take a paper to the Payments System Board's May meeting and that we will update stakeholders following that meeting.

I would now be happy to take any questions on the Issues Paper or the Review process.

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The Reserve Bank of Australia acknowledges the Aboriginal and Torres Strait Islander Peoples of Australia as the Traditional Custodians of this land, and recognises their continuing connection to Country. We pay our respects to their Elders, past, present and emerging.