

4 February 2016

Dr Tony Richards
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Reserve Bank of Australia
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By email: pysubmissions@rba.gov.au

Dear Dr Richards

Review of Card Payments Regulation - Consultation Paper 2015

Thank you for the opportunity to comment on the RBA's preliminary conclusions on the future of card payments regulation in Australia.

COBA represents the customer-owned banking sector, i.e. credit unions, building societies and mutual banks, and we bring a card-issuer and cardholder perspective to policy debate on card payments regulation.

Customer-owned banking institutions have 4 million customers and total assets of \$96 billion. The customer-owned banking sector was the early adopter of scheme debit in the Australian market and is a significant issuer of debit cards.

COBA is generally supportive of the RBA's proposals set out in the Consultation Paper with the exception of the proposed reduction in the debit card interchange fee benchmark by 33%.

We request reconsideration of this proposal.

Debit interchange fees

The RBA's case for choosing Option 3(b) over Option 2 is not entirely clear, given that Option 2 – a ceiling on individual interchange fee rates – is considered appropriate for credit card interchange fees.

Reducing the benchmark for weighted average interchange fees from 12 cents to 8 cents in 2016 raises the following concerns:

- It could impose a significant reduction in debit interchange fee revenue for card issuers, with little time to adjust;
- It would mean a transfer of some payment system costs from merchants to issuers and cardholders;
- It would reduce the relative competitiveness of debit for issuers compared to credit and unregulated cards; and
- It would mean a withdrawal of funding from within the payments system at a time when there are demands on issuers to apply resources for innovation, fighting fraud and implementing the New Payments Platform.

Impact on issuers

COBA is concerned about the disruptive impact on issuers of such a large reduction in the benchmark, particularly without an appropriate transition period. A reduction of this scale was not flagged in the RBA's March 2015 Issues Paper.

The December 2015 Consultation Paper asserts that cutting the benchmark to 8 cents "would unwind the effective increase in percentage terms in the benchmark that has resulted from the fall in average transaction size since 2006."

The fall in average transaction sizes is a positive trend, with card payments replacing cash, driven by innovation such as the introduction of tap-and-go contactless transactions. This trend benefits merchants and cardholders.

An alternative approach to an arbitrary reduction in the cents-per-transaction benchmark that could be explored would be to transition to an ad valorem benchmark. This may address the concern that some merchants do not accept cards for low-value transactions because they consider the transaction costs to be too high. However, merchants who are reluctant to accept cards for low value transactions may need other incentives beyond a 4 cent reduction in the debit interchange benchmark.

Given the potentially significant impact on issuers, COBA requests that the RBA suspends implementation of this proposal to allow for further assessment of its impact, along with the impact of the proposed ceilings (15 cents & 0.20 per cent) on individual interchange rates. This will give schemes and issuers adequate time to assess, plan and respond.

Key matters for consideration are the RBA's claims in its Q&A document¹ that interchange rates on standard cards "would be largely unaffected" and that "consumers may find that they can use their cards for a greater range of transactions."

Shift in cost burden

Interchange fees are a mechanism to enable sharing of costs of certain benefits that card issuers provide to merchants. To the extent that this cost burden shifts from merchants to card issuers, card issuers may look to recover these costs from cardholders.

Merchants should bear at least some of the cost of benefits provided to them by card issuers.

Competitiveness of debit

The success of debit, under existing interchange fee arrangements, is demonstrated by its transaction growth trajectory and the fall in average transaction size. However, the proposed reduction in the debit benchmark makes competing card products, i.e. credit cards and three-party cards, relatively more attractive to issuers.

The RBA acknowledges in the Consultation Paper (p24) that: "Systems with relatively low interchange fees will often be at a disadvantage in attracting cardholders from competing payment systems with higher fees."

Reducing the competitiveness of debit cards compared to credit cards increases the incentive for issuers to sell credit cards rather than debit cards. This would potentially worsen the problem of long-term credit card debt and the credit card "debt trap" examined in the recent report of the Senate Economic References Committee *Interest rates and informed choice in the Australian credit card market*.

¹ <http://www.rba.gov.au/payments-and-infrastructure/resources/qa/card-payments-regulation.html>

The December 2015 Senate report expressed a “primary concern” that too many Australians are 'revolving' credit card debt for extended periods of time and getting hit by high interest charges in the process.

“It is clear that some individuals end up in credit card debt because of poor decisions in choosing a card, using that card, and managing their card debt. Though individuals are expected to assume personal responsibility for the financial decisions they make, evidence received in this inquiry indicates that the credit card market is structured in such a way as to make it extremely difficult for individuals to make *informed* decisions about credit card debt.”²

Payments system investment

The RBA’s Consultation Paper notes (p26) that reducing interchange fee revenue “may be more disruptive for existing participants in the payments industry than Option 2, at a time when there are a number of other initiatives underway (notably the New Payments Platform and the new ePAL hub).”

COBA agrees with this point. COBA members’ payment system partners, i.e. Cuscal, Indue and ASL, are founding participants in the NPP and are making significant investments in the NPP and other initiatives that will ultimately be recovered from their customer ADIs.

Please don’t hesitate to contact me on 02 8035 8448 to discuss this submission.

Yours sincerely,



Luke Lawler
Head of Public Affairs

² *Interest Rates and Informed Choice in the Australian Credit Card Market* Senate Economic References Committee, December 2015, p55