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## Summary

In summary, the pricing of credit card payment services is sending consumers a misleading signal about the cost to the community of different payment instruments, while barriers to entry are shielding the members of the credit card schemes from the competitive pressures that non-financial corporations of substance could bring to bear.

The consequence of the current structure of price incentives is that consumers using credit cards are not necessarily those who ultimately bear the costs. The community bears a significant proportion of credit card costs: because merchants have no alternative but to pass merchant service fees into the general level of prices, the costs are borne by all consumers, whether they use a credit card or not. A much larger proportion of credit card costs are borne directly by credit cardholders using the “revolving” line of credit, who pay interest rates significantly above rates on other forms of unsecured lending. Credit card transactors contribute little directly to credit card costs.

## 3. OBJECTIVE

The objective of the Reserve Bank’s reforms is to promote efficiency in the Australian payments system and enhance community welfare by increasing competition and giving greater rein to the workings of the price mechanism.

## 4. OPTIONS

Three options are available to the Reserve Bank:

- (i) no regulatory action;
- (ii) regulatory action to remove credit card scheme restrictions on access and merchant pricing; or
- (iii) regulatory action to remove these scheme restrictions and to address the collective setting of interchange fees.

### **No regulatory action**

A decision by the Reserve Bank to take no regulatory action would not necessarily mean that interchange fee arrangements in the credit card schemes would continue in their current form. However, credit card scheme restrictions on access and merchant pricing would be expected to remain unchanged.

In a development separate to the Reserve Bank’s review of credit card schemes, in 2000 the ACCC instituted proceedings in the Federal Court alleging that the