



MEDIA RELEASE

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**CALL FOR BALANCE IN INTERCHANGE FEE REFORM:
DON'T FORGET CARDHOLDERS**

Australia's smaller financial institutions have called for a more balanced approach to the Reserve Bank of Australia's reform of credit card and debit card interchange arrangements.

"We want to see clear benefits to cardholders and not just merchants from the interchange fee reform agenda. The interests of big banks and big retailers should not be placed before those of consumers and smaller financial institutions. In order to ensure changes are in the public interest – and do not punish smaller players – a balanced assessment of all card payment products is required, including credit cards, Visa debit cards and EFTPOS debit cards."

The payments system regulator, the Reserve Bank of Australia (RBA), believes:

- *credit card interchange fees are too high; and*
- *Australia's EFTPOS debit card interchange fees are unique in the world and there is no convincing case for their existence.*

"In our view, the RBA does not appear to have given equal attention to these findings. It has been working to a retailer-driven agenda by focusing on credit card interchange fees without an equal focus on EFTPOS debit card interchange fees."

The House of Representatives' Economics Committee – which oversees the RBA – agrees, recommending that the RBA accelerate their examination of EFTPOS arrangements.¹

The RBA wants a more "efficient" payments system in which credit cardholders pay more (in annual fees, transaction fees or surcharges) and retailers pay lower merchant service fees.

"If the RBA wants credit cardholders to pay more in the interests of fairness and efficiency of the payments system it should be equally concerned to see that debit cardholders pay less.

"The RBA's own report agrees that there is no compelling case for Australia's current EFTPOS debit interchange arrangements, which currently benefit the biggest banks and the biggest retailers.

¹ *The Centenary of Federation Hearing: Review of Reserve Bank of Australia Annual Report 1999-2000* on 25 June 2001, House of Representatives Economics, Finance and Public Administration Committee, p32

“In fact, whereas the credit card interchange rates in Australia are consistent and competitive with international standards, Australia’s EFTPOS interchange system is unique in that the card issuing institution (and ultimately the card holder) pays for the transaction.”

The Prices Surveillance Authority warned in 1995² that “those financial institutions which have not established an EFTPOS network but issue cards to customers, are clearly losers.” Those institutions were – and still are – credit unions, building societies and smaller banks.

These institutions are the largest issuers of a different card product, the Visa debit (or Visa payment) card, which can be used like a credit card over the counter, over the telephone, over the Internet, internationally, or to make purchases through the post. There are 2.8 million of these cards in Australia. This Visa product is a unique product with similarities to both the EFTPOS debit card and credit card. It plays a critical role in the payment system by providing customers who do not want or cannot afford access to credit cards with the ability to use the global credit card payments network.

Credit Union Services Corporation, St George Bank, the Australian Association of Permanent Building Societies, and Bendigo Bank have commissioned independent research to review interchange arrangements for the Visa debit card.

“As smaller financial institutions, we’re engaging in good faith with the RBA’s reform process. But interchange reform must be considered as a package – rather than piecemeal. The industry analysis and examination required to review interchange arrangements for debit cards should be no less rigorous or less urgent than that which is currently occurring to review credit card interchange rates.

“The RBA should immediately move to initiate reform arrangements for all debit cards, just as it has with credit cards.

“All customers, including users of EFTPOS debit cards, deserve to be considered in the RBA’s reform agenda – not just big banks and big retailers.”

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² *PSA Inquiry into Fees and Charges imposed on Retail Accounts by banks and other financial institutions and by retailers on EFTPOS transactions.* PSA Report No.65, June 1995, p268.

Background Information

Together, Australia's credit unions, building societies, St George Bank, and Bendigo Bank have around 7.5 million customers and 1.9 million Visa debit cards (about 2/3 of the 2.8 million cards in Australia). These cards have been issued since 1982 (before the emergence of the Visa credit card), allowing members to access their own funds (including pre-arranged overdrafts) through the Visa payment network over the counter, internationally and – today – over the phone, in the mail, and on the Internet.

Credit card interchange

Interchange fees are wholesale fees paid between financial institutions such as banks, building societies and credit unions as part of the process of honouring each other's cards.

Interchange fees arising from credit card (Visa, Mastercard and Bankcard) transactions are in effect borne by retailers, not by cardholders. Card issuers and their customers holding these cards benefit from current interchange fee arrangements. These fees ensure retailers pay their fair share of the cost of the overall system. Under the RBA's approach, retailers would pay less and cardholders would pay more:

“A greater contribution by cardholders to the costs of using a credit card would provide scope to lower interchange fees, merchant service fees, and prices of goods and services. The present fees charged to merchants are ultimately passed on to all consumers – not just those using credit cards – in the form of higher prices of goods and services. In effect, credit card users are being cross-subsidised by other consumers. One way of ensuring that cardholders bear more of the costs is through increases in direct charges by card issuers. The possibilities include:

- an increase in the annual fee; or
- introduction of a transaction fee as applies in most other payment instruments (once they exceed their fee-free threshold) but not on charge cards, store cards, or credit cards.”³

On 12 April 2001, the RBA ‘designated’ credit card systems in Australia under the *Payment Systems (Regulation) Act 1998*, as a formal step in developing standards for access including the setting of interchange fees.

The RBA believes retailers will pass on any resulting fee reductions to shoppers. It appears the only reason for the RBA's faith in this outcome is the competitiveness of the retail market.

Debit card interchange

Interchange fees arising from EFTPOS debit card transactions are in effect borne by cardholders (once free transaction limits are exceeded), not retailers.

Around 95 per cent of all debit card transactions are acquired by the big four banks, with two national retail firms accounting for around half of all debit card transactions.⁴ Some large retailers actually get paid to accept EFTPOS debit card transactions.

³ *Debit and Credit Card Schemes in Australia, A study of interchange fees and access*, RBA/ACCC, October 2000, p52.

In the RBA's view there is no clear justification for the current arrangements:

“The direction of debit card interchange fee payments in Australia is unique. In other countries the payment is to the card issuer, or there are no interchange fees at all. None of the participants in the Australian debit card network could provide a formal methodology or empirical evidence to support either the existing direction and level of interchange fees, or a change in these arrangements.”⁵

The RBA has not, however, designated EFTPOS debit card arrangements, nor initiated a process of review. Consumers are missing out on lower EFTPOS fees and smaller institutions are being disadvantaged relative to the big banks.

Reform of Australia's EFTPOS debit interchange arrangements would go some way to providing a benefit to those customers who have gained nothing from trends identified in the RBA's July 2001 publication *Bank Fees in Australia*. The RBA found⁶ that “at an aggregate level” falling interest margins had outweighed the rise in bank fees. However, “customers who do not have a loan, who have a low balance, or those with a high volume of transactions, will not have benefited from these trends.”

⁴ *Debit and Credit Card Schemes in Australia, A study of interchange fees and access*, RBA/ACCC, October 2000, p20, 71

⁵ *Debit and Credit Card Schemes in Australia, A study of interchange fees and access*, RBA/ACCC, October 2000, p66.

⁶ *Bank Fees in Australia*, RBA Bulletin July 2001, p5-6.