1. Background to Reforms

1.1 Introduction

The Reserve Bank is seeking comments on its proposed reforms to the EFTPOS and Visa Debit payment systems.

This document sets out the proposed reforms. It also sets out the core reasoning underlying the Bank's proposals, the consultation undertaken to date, and the Bank's analysis of a number of alternative options.[1]

The document is structured as follows. The first section provides relevant background to the reform process, including a discussion of: the EFTPOS and Visa Debit systems; the extent of the Bank's powers; the factors identified by the Bank as impairing the efficiency of the Australian payments system; and a summary of the reform process to date. The second section discusses interchange fees in the EFTPOS and Visa Debit systems and proposes standards for the calculation of these fees. The third section discusses the acceptance rules for Visa Debit and proposes a standard that would prevent a merchant being required to accept Visa Debit cards as a condition of accepting Visa credit cards (*and vice versa*).

The Bank invites interested parties to make submissions on these proposals by 29 April 2005. Submissions will be published on the Bank's website. An opportunity will be provided to those making submissions to discuss them with the Bank.

The release of draft standards now, rather than after the completion of the current case in the Federal Court challenging designation of the EFTPOS system, reflects a desire by the Bank to reduce the current level of uncertainty as to the Bank's proposed policy with respect to debit cards. A number of institutions have recently noted in consultations that the current level of regulatory uncertainty is one factor making it difficult to move forward with business plans. The Payments System Board will, however, not take any final decisions concerning the proposed standards until after the Federal Court case has been completed. If warranted, the Bank will also provide for a further period for consultation after the court case has been concluded.

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1 The Bank has released a number of publications dealing with aspects of these issues. They can be found on the Bank's website, www.rba.gov.au. The principal publications are:
Payments System Board Annual Reports, 1999-2004;
Australian Competition and Consumer Commission and Reserve Bank of Australia, Debit and Credit Card Schemes in Australia: A Study of Interchange Fees and Access, October 2000;
Reserve Bank of Australia, Reform of Credit Card Schemes in Australia, I: A Consultation Document, December 2001;
Reserve Bank of Australia, Reform of Credit Card Schemes in Australia, II: Commissioned Report, December 2001;
Reserve Bank of Australia, Reform of Credit Card Schemes in Australia, IV: Final Reforms and Regulation Impact Statement, August 2002;
Submissions to the ACCC in Response to the Draft Determination, Including the Pre-Decision Conference, August-December 2003;
Submission by the Reserve Bank of Australia to the Australian Competition Tribunal, April 2004;
Reasons for the Decision to Designate the EFTPOS Payment System, 14 October 2004.

1.2 Debit Card Payment Systems

There are two debit card payment systems operating widely in Australia – the EFTPOS system and the Visa Debit system. With over 27 million debit cards on issue, these cards were used to make more than 1 billion transactions in 2004, with an average value of $68. Of these two systems, the EFTPOS system is the larger by a considerable margin, with total spending through the system around 6 times that in the Visa Debit system.

The two debit card systems operate alongside a number of other retail payment systems including credit and charge cards, direct credits, direct debits, BPAY, cheques and cash. In all, debit cards accounted for around 28 per cent of all non-cash transactions in 2004 (but only around 1 per cent of the value of these transactions). By way of comparison, credit and charge cards accounted for 29 per cent of non-cash transactions (and 2 per cent of their value).

1.2.1 The EFTPOS system

The EFTPOS system allows cardholders to make payments at merchants accepting EFTPOS cards. In some cases, merchants also allow cardholders to withdraw cash using the EFTPOS system. To initiate a transaction, the cardholder swipes his or her card through a terminal at the point of sale and enters a personal identification number (PIN) into the terminal. The details of the transaction and PIN are forwarded to the cardholder's financial institution for authorisation. Once authorised, the transaction is debited electronically to the cardholder's account at that institution. The EFTPOS cards issued by financial institutions can generally be linked to a number of different accounts or linked to the same account in different ways. For example, it is common for the card used for EFTPOS transactions to be used to withdraw cash at an Automatic Teller Machine (ATM) and to be used to make credit card or Visa Debit transactions.

The EFTPOS system is built as a series of bilateral links between institutions that issue the cards (issuers) and institutions that provide payment services to merchants (acquirers). The first cards were issued in the 1980s. Initially these cards could only be used to make a purchase at merchants who used the same bank as the cardholder. However, as the system expanded, links between financial institutions were established and cardholders gained access to an increasing number of merchants. By the 1990s, merchants were able to accept cards from all issuers and, by 2004, there were around 465,000 EFTPOS terminals in Australia.

Currently, there are 11 institutions offering EFTPOS acquiring services to merchants and one merchant acting as its own acquirer (known as a merchant principal). In contrast, there are more than 150 banks, building societies and credit unions issuing debit cards that can be used in the EFTPOS system. These issuers typically charge the cardholder a fixed monthly fee for operating the underlying account, although this fee is sometimes waived for relationship or other reasons. Over recent years, these accounts have offered a certain number of transactions per month for no additional charge, with a per-transaction fee being levied once this number is exceeded. In 2004, this fee (at the largest banks) averaged around 40 cents for an EFTPOS transaction. Data supplied to the Reserve Bank in mid 2004 indicate that, for these banks, around 25 per cent of EFTPOS transactions incurred such fees, earning the five major banks around $70 million in revenue in 2004. More recently, a number of banks have modified their fee structures and now offer an account with an unlimited number of free electronic transactions for a fixed monthly fee.

1.2.2 The Visa Debit system

Like the EFTPOS system, the Visa Debit system allows cardholders to make payments by electronically debiting an account at an authorised deposit-taking institution. Unlike the EFTPOS system, however, transactions are processed and authorised through the Visa system (in the same way as are credit card transactions). Australian Visa Debit cards can be used wherever Visa credit cards can be used and, indeed, cannot be visually distinguished from Visa credit cards. If a merchant accepts Visa credit cards, Visa's 'honour all cards' rule requires the merchant to accept Visa Debit cards as well.

In addition to the different infrastructure, the Visa Debit system differs from the EFTPOS system in other ways. One is that the cardholder usually authorises the transaction by signing a receipt at the point of sale rather than by entering a PIN. A second is that the card can be used to pay for goods and services in situations where the cardholder and merchant are not in the same location; examples include payments over the internet or telephone. A third is that the cardholder is not able to obtain 'cash out' at merchants. A fourth is that the card can be used internationally. And finally, Visa Debit transactions attract the same protections as other Visa transactions, with so-called 'chargebacks' for customers whose cards are used fraudulently or where goods and services are not delivered as promised.

Visa Debit cards are issued as multi-function cards that can be used to make transactions through both the Visa Debit and EFTPOS systems. At an electronic terminal in Australia the cardholder can press either the 'credit' button, or the 'cheque' or 'savings' button. Pressing the 'credit' button results in the transaction being processed through the Visa network, while pressing the 'cheque' or 'savings' button results in the transaction being processed through the EFTPOS network. Regardless of which button is selected, the transaction is a debit transaction on the same account.

The first Visa Debit cards were introduced in 1982 by building societies and credit unions. The introduction of these cards was partly in response to regulations that prevented non-bank financial institutions from issuing credit cards. While these controls have since been abolished, credit unions and building societies remain significant issuers of Visa Debit cards.

Institutions offering Visa Debit cards have typically not charged per-transaction fees for Visa Debit transactions.

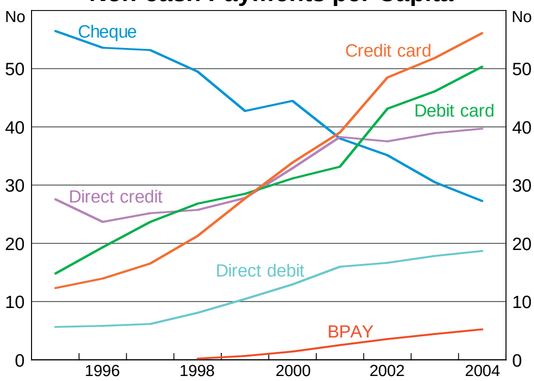
1.3 The Payments System

As mentioned above, the two Australian debit card systems operate within the wider context of the Australian payments system. Graph 1 shows the trends in use of the most significant non-cash payment systems over recent years.

Over this period, the use of electronic payment methods has grown particularly strongly at the expense of more traditional, paper-based cheques. While all the electronic methods have been growing strongly, there have been changing patterns of use within this category. Until the late 1990s, debit cards were used more frequently than credit cards. However, the mid

Graph 1

Non-cash Payments per Capita



Sources: ABS; APCA; RBA

to late 1990s saw very rapid growth in credit card use and the number of credit card transactions has exceeded the number of debit card transactions each year since 2000. This change coincided with the introduction and heavy promotion of credit card reward schemes which served to lower the effective price of credit card use to the cardholder, but not to the community as a whole.

In most situations, cardholders have a variety of payment options from which to choose. A number of factors influence this choice including convenience, security and ubiquity of acceptance. It is generally more convenient, for example, to use card-based payments than cheques at the point of sale due to the shorter transaction time for card-based payments. Similarly, cash is generally the fastest payment method for small transactions, and so is commonly favoured for quick, low-value purchases in locations with high turnover.

Another important factor influencing the choice of payment instrument is price. The reduced use of cheques, for example, has coincided with higher charges for writing cheques. Similarly, the shift away from bank branches to ATMs for cash withdrawals has been influenced by the higher charges for branch withdrawals. These price effects are evident in other countries as well. For example, in the United States, scheme-based debit cards, such as Visa Debit and MasterCard Money, gained market share at the expense of PIN-based debit cards because they offered a very similar service at a lower price to the cardholder.[2]

The effective price is also frequently mentioned as a factor influencing choice in surveys of cardholders. For example, a survey of New Zealand consumers found that 56 per cent of credit card users listed the interest-free period as a reason to use credit cards while 46 per cent listed other price-related factors such as reward programs and lower transaction costs. Similarly, 61 per cent listed high transaction costs as a reason for not using EFTPOS.[3] A survey commissioned by the Australian Merchant Payments Forum also found that price was important for Australian consumers.[4] Nearly half of credit card users cited loyalty points or other price-related factors as the reason they used a credit card instead of other payment instruments. Of those consumers that were aware of the price they were paying for a particular transaction, the overwhelming majority chose to use a payment instrument that had zero per-transaction fees. Indeed, much of the recent competition between financial institutions has focussed on the price charged for use of transaction accounts. This clearly suggests that these financial institutions believe that consumers will be attracted to their institution based on the price they charge for transactions.

2 L Nyberg and G Guiborg (2003), D Humphrey, M Kim and B Vale (2001).

3 Liu, C, C Matthews and D Tripe (2004).

4 A report on the survey results can be found on the Reserve Bank website at http://www.rba.gov.au/PaymentsSystem/PaymentsPolicy/Reforms/Eftpos/SubmissionsOnEFTPOSInterchangeFees/ampf_09112004_2.pdf.

Both the Australian and international evidence strongly supports the view that price is an important factor influencing payment choices.

1.3.1 Interchange fees

Payment systems sometimes require the payment of fees between the institutions in the system. These fees – known as interchange fees – are an important factor influencing the prices that cardholders and merchants face for using the system.

Where interchange fees exist around the world they typically flow from the merchant's financial institution to the cardholder's financial institution. The EFTPOS system in Australia is an exception. In this case, the fee flows in the reverse direction: that is, from the cardholder's financial institution to the merchant's financial institution. The fee is flat and averages around 20 cents per transaction. Most of the interchange fees for the major banks are clustered around this average, while smaller financial institutions typically pay interchange fees some 5 to 10 cents higher. The interchange fees are identical in both directions (that is, they are the same when Bank Y's customer uses a card at Bank Z's merchant and when Bank Z's customer uses a card at Bank Y's merchant).

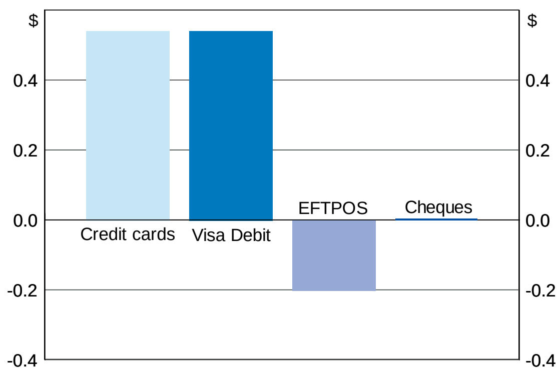
Most interchange fees in the EFTPOS system were negotiated when initial network connections were formed and have varied little since that time.

In the Visa Debit and credit card systems, interchange fees flow in the opposite direction; that is, from the merchant's financial institution to the cardholder's financial institution. Unlike in the EFTPOS system, the fee is a percentage of the amount spent, and is the same as the fee in the Visa credit card system. This fee currently averages around 0.55 per cent across all transactions, 0.4 of a percentage point lower, on average, than it was prior to the Bank's reforms to the credit card systems.

As an illustration of the various fees, Graph 2 shows the interchange fees that would typically apply on a payment of $100 in different payment systems.

Graph 2

Interchange on a $100 Transaction



Source: RBA

A consequence of these interchange fees is that they increase the net costs of the institution paying the fees, and reduce the net costs of the institution receiving them. As such, institutions receiving interchange fees may be able to charge customers a price lower than the underlying cost to them of providing the payment service. And institutions paying interchange fees may need to charge their customers a price above that suggested by the underlying costs of providing the service. In this way, interchange fees can alter the usually direct link between costs and prices on both sides of a payment system.

1.4 The Reserve Bank's Payments System Powers

The Reserve Bank has various powers to address questions of efficiency, competition and the stability of payment systems. These powers are set out in a number of Acts including the *Reserve Bank Act 1959* and the *Payment Systems (Regulation) Act 1998*.

These powers are exercised by the Payments System Board of the Reserve Bank. According to the *Reserve Bank Act 1959*:

It is the duty of the Payments System Board to ensure, within the limits of its powers, that:

(a) the Bank's payments system policy is directed to the greatest advantage of the people of Australia; and

(b) the powers of the Bank under the Payment Systems (Regulation) Act 1998 and the Payment Systems and Netting Act 1998 are exercised in a way that, in the Board's opinion, will best contribute to:

(i) controlling risk in the financial system; and

(ii) promoting the efficiency of the payments system; and

(iii) promoting competition in the market for payment services, consistent with the overall stability of the financial system…

The *Payment Systems (Regulation) Act 1998* gives the Reserve Bank the authority to 'designate' a payment system if it considers that doing so is in the public interest. Having designated a system, the Bank may then set an access regime, determine standards, give enforceable directions and arbitrate on disputes (where the parties agree to arbitration). In introducing the legislation, the Government made it clear that the development of an access regime or the setting of standards should be undertaken, as far as possible, in conjunction and consultation with the private sector.

1.5 The Public Interest Test

In determining whether a particular action is in the public interest, the *Payment Systems (Regulation) Act 1998* states that:

…the Reserve Bank is to have regard to the desirability of payment systems:

(a) being (in its opinion):

(i) financially safe for use by participants; and

(ii) efficient; and

(iii) competitive; and

(b) not (in its opinion) materially causing or contributing to increased risk to the financial system.

The Reserve Bank may have regard to other matters that it considers are relevant, but is not required to do so.

In applying the public interest test, the Bank has considered how best to assess efficiency and competition in the Australian payments system. After considering a number of theoretical approaches, it is the Bank's opinion that this assessment is best done by using a number of practical benchmarks.

In particular, an efficient and competitive payment system is one in which:

- the relative prices charged by financial institutions to consumers who use payment instruments reflect the relative costs of providing those instruments (except where the private benefits or costs do not match the society-wide benefits or costs) as well as demand conditions;
- merchants are free to set prices for customers that promote the competitiveness of their business;
- prices of payment services are transparent;
- any restrictions on entry of institutions to a payment system are the minimum necessary for the safe operation of the system; and
- competition within each payment system and between payment systems is open and effective.

In assessing the current system against these benchmarks, the Bank considered whether it was necessary to define strictly the market in which particular payment systems, including debit cards, operate. The Bank determined that market definition, of the kind customarily undertaken under the *Trade Practices Act 1974,* would not assist its analysis and was not necessary before forming an opinion about competition and efficiency in Australia's debit card payment systems.

The Bank recognises that payment instruments are substitutable in many circumstances, but also recognises that in other circumstances the same payment instruments may not be good substitutes for one another (for example, where a consumer does not have cash funds available in his or her account and wishes to purchase on credit).

The Bank also considered whether it was necessary to obtain formal estimates of the extent of substitutability between different payment instruments. It concluded that it was not necessary to do so given the strong evidence that credit and debit cards are highly substitutable for many people. In many cases, a single card offers both credit and debit facilities, with the cardholder simply pressing 'credit' or 'savings/cheque' at the point of sale to use one system or the other. For cardholders with funds in their account, a key factor influencing which method they choose is the relative price of the two methods. In particular, the Bank noted that financial institutions often promote the use of credit cards over both EFTPOS and ATM withdrawals on the basis that using a credit card saves the cardholder transaction fees. The Bank also noted that obtaining reliable estimates of elasticities using existing techniques and data is very difficult. Overall the Bank's opinion is that the above benchmarks provide a sufficient basis for judging the efficiency and competitiveness of the current system.

In this context, the Bank noted a number of aspects of the overall Australian payments system that fall short of these benchmarks.

Prices and costs

The first is that the relative prices of various payment instruments are not closely aligned with the relative costs of providing those payment instruments. In effect, users of the payment system with the lowest cost often face the highest price.

For many people, the effective price for using the EFTPOS system is higher than that for using the credit card system. This is despite the EFTPOS system having the lower resource costs. Given the strong substitution possibilities between these systems, the effect of this is likely to be that the EFTPOS system is underused.

Similarly, users of the EFTPOS system face either the same or a higher price than users of the Visa Debit system, despite the Visa Debit system having higher costs.

To a significant extent these divergences between relative prices and costs are the result of the different interchange fee arrangements in the EFTPOS, Visa Debit and credit card systems. Moreover, these interchange fees are not subject to the normal forces of competition that operate in most other markets.

It is also important to recognise that interchange fees affect not only the prices that cardholders face, but also the charges faced by merchants for accepting various payment instruments. Under current arrangements, credit cards are much more expensive for merchants to accept than EFTPOS payments. Moreover, merchants are charged the same fee for accepting Visa Debit cards as they are for accepting credit cards, despite the fact that the user of a Visa Debit card is not offered any free credit by the financial institution that issued the card.

In effect, the distorted price signals to the cardholder, which have encouraged the use of the more expensive payment options, have come at the expense of higher merchant costs. In turn, these higher costs flow through into higher prices for goods and services.

Accordingly, the Bank's opinion is that bringing the relative prices and costs for these payment systems into closer alignment would promote the efficiency of the overall system. Encouraging more efficient payment choices by cardholders should reduce merchants' overall costs, and thus put downward pressure on the overall level of prices for goods and services.

In forming its views, the Bank has taken a medium-term perspective and considered not only the individual payment systems in isolation, but also the payments system as a whole. In particular, it has considered how the system is likely to evolve if the existing incentives facing financial institutions remain unchanged. Given the often strong competition on the issuing side, the Bank's assessment is that a continuation of current arrangements could see, over time, financial institutions encourage customers wishing to use a debit card to use the Visa Debit system (or similar scheme-based systems with similar interchange fees) rather than the EFTPOS system.

One effect of such a change would be an increase in merchants' overall payments costs, given that merchant costs for accepting Visa Debit are significantly higher than for accepting EFTPOS. This, in turn, would put upward pressure on the general prices of goods and services.

In forming its views, the Bank has recognised that a payment system in which all payments were made with the lowest cost payment instrument would, in all probability, not be efficient. In many cases, payment systems with higher resource costs deliver greater benefits to their users than low-cost systems. From an efficiency perspective what is important is that the price signals are correct, that cardholders are free to use the payment systems that best suit their needs, and that merchants are free to accept those payment systems that deliver them value. If the high-cost system is underpriced, then the system will be overused with cardholders using payment services whose cost of provision to society exceeds the benefit they obtain.

Restrictions on merchants

The second aspect of current arrangements that falls short of the benchmarks is that merchants are not able to freely choose which payment instruments they accept. In particular, under current arrangements a merchant who accepts Visa credit cards must also accept Visa Debit cards. Moreover, merchants are charged the same fee on both cards despite the fact that on a Visa Debit card there is no provision of interest-free credit.

The Bank is concerned that this restriction inhibits normal competitive forces and increases the overall costs to merchants of accepting Visa Debit. As noted above, these higher costs flow through into the general level of prices of goods and services.

Restrictions on entry

The third aspect where current arrangements fall short of the above benchmarks is that of entry into the EFTPOS system.

In most markets, competition and efficiency are enhanced by having low barriers to entry. A concern for the Bank has been the potential for entry barriers in the EFTPOS system, particularly on the acquiring side, to effectively limit competition. Currently, direct entry to the system by an acquirer can require negotiations with around ten institutions on both technical matters and pricing. The failure to reach agreement with any one of these institutions – which are typically competitors – means that the potential entrant could have considerable difficulty in offering a marketable or competitive acquiring service. Even if an incumbent agrees to a direct connection, it can take considerable time before it agrees to schedule the necessary testing for establishment of the link. The alternative entry route is through a gateway, although here the costs can be quite high.

The difficulty of entry can limit effective competition on the acquiring side and can impair efficiency by making it difficult for new lower-cost entrants to enter the system and offer acquiring services to merchants at a lower price.

1.6 History of Reform in the Card Payment Systems

Soon after the Payments System Board was established, it undertook an extensive study of debit and credit card schemes in Australia. The findings of this study, which was conducted jointly with the Australian Competition and Consumer Commission (ACCC), were published in October 2000 in *Debit and Credit Card Schemes in Australia: A Study of Interchange Fees and Access* (the 'Joint Study').

A central theme of the Joint Study was that in a number of areas the price signals faced by consumers of payment services did not reflect the underlying costs of providing those services. The Study concluded (page v) that the '*structure of incentives has encouraged the growth of* *the credit card network at the expense of other payment instruments, particularly debit cards and direct debits, that consume fewer resources. As a result, Australia has a higher cost retail payments system than necessary, and much of this higher cost is borne by consumers who do not use credit cards.*'

Given the conclusion that the efficiency of the payment system would be improved if consumers faced prices for payment services that more closely reflected underlying costs, and restrictions on effective competition were removed, the Bank set about encouraging industry efforts at reform.

The initial roadmap envisioned parallel work on the major card payment systems in Australia with the introduction of final reforms in all systems at roughly similar times. As it eventuated, progress in some payment systems has been more protracted than in others. Given the complicated nature of the task, the difficulty of achieving industry coordination, and the extensive legal proceedings, the process has run over a number of years and reform across individual payment systems has become decoupled.

Credit cards

In the area of credit cards, the reforms have addressed:

- the setting of interchange fees;
- the so-called 'no surcharge' rule that prevented merchants from passing on the cost of accepting credit cards; and
- restrictions in the schemes' membership requirements that were stronger than those needed to protect the integrity of the schemes.

After an extensive period of consultation, the Bank established two standards. The first of these came into effect on 1 January 2003 and made it possible for merchants accepting MasterCard and Visa cards to pass on the cost of acceptance to customers that use the cards. The Bank also obtained undertakings from American Express and Diners Club to eliminate prohibitions on such charges (Bankcard had no such prohibitions). The second standard came into force in October 2003. This standard requires that the weighted-average interchange fee in each of the Bankcard, MasterCard and Visa schemes not exceed a cost-based benchmark based on its issuers' eligible costs. This standard has seen the average interchange fee in these schemes fall from around 0.95 per cent to around 0.55 per cent. This fall has been passed through to merchants in the form of lower merchant service fees, and is estimated to have saved merchants around $500 million in 2004.

The Bank also established an access regime which came into force in February 2004. Under the regime, potential entrants could seek authorisation by the Australian Prudential Regulation Authority (APRA) as specialist credit card issuers and/or acquirers. Card schemes are now not permitted to discriminate against potential entrants on the basis of whether they are a specialised credit card institution or a traditional authorised deposit-taking institution, or on the basis of whether the potential entrant will be an issuer of credit cards only, an acquirer of credit card transactions only, or both.

EFTPOS

At the time the credit card reform process was proceeding, the Bank hoped that a voluntary industry process would deliver changes to the debit card system on a timetable roughly similar to that of credit cards. To assist in this process, the Bank convened a series of meetings of industry participants, beginning in early 2002, to explore the options for reform.

Industry views on reform were quite diverse and strongly held; for this reason, the Bank encouraged the industry to seek public input into the reform process. In July 2002, an industry group released a paper outlining three basic options for reform: retention of current arrangements (with small modifications); adoption of collectively determined interchange fees calculated on a cost-based approach; and the elimination of interchange fees either through their abolition or by setting them to zero.[5]

Following publication of the paper, the group met with interested parties to discuss the options. Significant differences in commercial interests remained both within the industry group and among other interested parties. Despite the lack of unanimity, in February 2003, a group of banks, building societies and credit unions submitted an application to the ACCC for authorisation of a proposal to reduce interchange fees to zero.[6] The ACCC initially proposed to deny the application due to concerns about access arrangements. In response, at the request of the applicants for authorisation, the Australian Payments Clearing Association (APCA) committed to develop an access regime and the Bank indicated that, were these efforts to fail, it would consider designating the EFTPOS system to achieve access reform. In light of this, the ACCC authorised the application in December 2003.[7]

Following the authorisation, a group of retailers successfully appealed to the Australian Competition Tribunal (ACT), with the Tribunal overturning the ACCC's decision on 25 May 2004. The Bank has carefully considered the evidence before, and the findings of, the ACT. The Bank's views in response are set out in Section 2.3 below.

Following the ACT's decision, the Bank invited submissions from interested parties on whether it would be in the public interest for it to designate the EFTPOS system. In all 23 submissions were received, with arguments being presented both for and against designation. Parties making submissions were invited to discuss them with the Bank. After reviewing these submissions, together with submissions previously made to the ACCC and the ACT and the decisions by those bodies, the Board concluded that designation was in the public interest. In September 2004, the Bank designated the EFTPOS system.

On the issue of access, APCA is still drafting a regime. As the draft currently stands, prospective entrants will be offered greater certainty as to the cost of connection and the time such connection will take. While the proposed arrangements offer an improvement on those currently in place, the Bank has recently written to APCA raising some concerns with the proposal. These concerns relate to whether the regime provides sufficient certainty on the cost and timing of entry and whether volume requirements are necessary for new entrants. If these

5 EFTPOS Industry Working Group (2002).
6 ANZ Banking Group and others (2003).
7 Australian Competition and Consumer Commission (2003).

concerns are not addressed satisfactorily, and in a timely manner, the Bank will consider issuing a draft access regime for public comment.

Visa Debit

Initially, the Bank also pursued voluntary reform of the Visa Debit system with Visa and the institutions that issue the cards. Much of the discussion took place between Visa and the Bank, with Visa making a number of submissions on voluntary reforms it was prepared to implement and arguments in defence of its current arrangements. Although some progress was made, discussions were complicated by the fact that issuing institutions could not discuss what would amount to the collective setting of interchange fees and the process was not transparent. Furthermore, there remained a number of areas where the Bank and Visa could not reach agreement.

The Payments System Board ultimately reached the conclusion that designation of the Visa Debit system was in the public interest. This decision was influenced in part by the fact that designation would allow for a transparent and inclusive consultation on possible reforms – a situation that had been difficult to achieve previously. In February 2004, the Payments System Board designated the Visa Debit system.