

## **Visa debit threat**

Looking at the figures, you could be forgiven for thinking we have reached credit card saturation point. Not only are many of us hitting our individual limits, but with an estimated 1.8 credit cards for every Australian man, woman and child, there shouldn't be much capacity for more to hit the market.

Sadly, you'd be wrong. It's bad enough that retailers are now muscling in on the credit act, issuing store cards which cost you more than mainstream cards, but can't be used at as many locations. But if the Reserve Bank has its way, a popular alternative to credit cards will be driven out of the Australian market, leaving its current users with little alternative but to switch to credit.

The product is a 'scheme debit card' – or Visa debit as the most widely used version is known. There are several million debit cards on issue in Australia, many from smaller financial institutions such as regional banks and credit unions.

Visa debit cards are a hybrid of traditional EFTPOS and credit cards. They look like a credit card, with a long account number, expiry date and use signature authorisation as well as a PIN. But many only provide access to the cardholder's current funds, not credit (though they can come with an overdraft facility).

The combination of these features is extremely important, as the card can be used for electronic transactions – such as online ticket bookings, over-the-phone bill payments or any such transaction not able to be conducted by EFTPOS with a PIN. So the cardholder gets the functions of a credit card, without the cost (or temptation) of credit.

Visa debit cards tend to be much cheaper than credit cards – largely because they are cheaper for institutions to issue. They may not have a loyalty program or a line of credit attached, but for anyone unable to obtain credit because of an impaired credit record, or who just wants to avoid having a credit card, they are an extremely popular product.

But Visa Debit has fallen foul of the Reserve Bank, which is keen to reform it, in line with its headline-grabbing reforms to credit cards. At issue are the fees paid by merchants to the visa debit issuers every time a visa debit card is used. There's no doubt the 'interchange' fees are high, and the Reserve Bank wants them to come down. Many in the industry agree the fees need reform, but disagree over how much.

On the one hand, the Reserve Bank argues the cards are simply glorified EFTPOS cards, and should attract no fee, on the other, industry players including credit unions have argued the case for a 'standard' to be set by the Reserve Bank stipulating what can be covered by a fee. The Reserve Bank set such a standard for credit cards, allowing fees to be charged for the cost of providing credit and processing transactions, but excluding the cost of loyalty programs. The industry has argued the standard for visa debit should allow for recovery of the same costs as provided for in the credit card standard where they arise.

While the consumer movement was a vocal supporter of the credit card reforms, we are concerned that the 'no interchange' approach of the Reserve Bank to Visa debit will have the perverse effect of actually decreasing access to one of the fastest-growing segments of the payments system. As more and more transactions go online, it is imperative that consumers unable to access credit are not shut out.

Nor should we be shunting consumers towards taking out credit cards in order to be able to pay their phone bill or book an airfare online. There's no intrinsic need to go into potentially high-cost debt to complete these transactions, but until the industry as a whole introduces PIN

authorisation for electronic transactions, consumers will continue to need the appropriate account number and expiry date details to complete them.

It's not just individual cardholders who may suffer as a result of these reforms. Unless institutions which issue Visa debit cards can recover the same costs allowed their credit card competitors, they will struggle to keep the cards on the market. Not only will this greatly disadvantage many consumers, but is also likely to have adverse effects on the efficiency and competitiveness of the retail banking market.

Visa debit cards already face stiff competition from credit cards and store cards. With the Reserve Bank also considering allowing stores to refuse to accept visa debit cards, their power to force visa debit out of the market could become overwhelming. There is a strong commercial incentive for large merchants who issue their own credit products to refuse to accept visa debit, but little public benefit if they do so. Store cards typically charge around 23 percent interest, with much more limited acceptance. Squeezing a cheap and popular product out to replace it with an expensive and inefficient one is not in consumers' interest.

Moreover, if the many smaller institutions which rely on Visa debit to attract and retain customers were to lose the capacity to do so, we would lose one of the greatest sources of competition in the retail banking sector. It is precisely those smaller institutions which continually challenge the major banks to lift their game. This is not an argument for protection of inefficient institutions, but for recognition of the substantial costs to consumers if there is any decline in the already low level of competition in retail banking.

When devising reforms to arcane and largely unknown fees in the payments system, it's easy to see how regulators and players can become obsessed by the minutiae and lose sight of the bigger picture. The drive for greater 'efficiency' can become one-sided, leaving out consideration of the impact on those who struggle to access any product or service, efficient or otherwise.

The debate over Visa debit is a neat example of how fundamental questions of basic consumer access to important or essential services are left unanswered by elegant economic models. The competitors to Visa debit are unlikely to come up with a low-cost alternative to meet the needs of former debit cardholders. They have alternatives already on the market – inefficient charge cards or expensive credit cards. Those unable to qualify for credit will be left with an empty wallet. Hardly the outcome Parliament sought when it directed the Reserve Bank to consider reforms in the 'public interest' that would be "financially safe for use by participants; efficient; and competitive".