



19 October 2006

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Dear John

Review of Card Payment Reforms 2007-8

On behalf of American Express, I am responding to your request for the views of interested parties about the form and content of the proposed review process.

We have addressed this by setting out the views of American Express in the form of answers to three obvious questions.

1. Who should carry out the review?

The RBA's Payments Policy staff should carry out the review. They are professional and objective and have the necessary expertise, having worked continuously and intensively on payment systems regulatory issues since the enactment of the Payments Systems (Regulation) Act in 1998.

Introducing another body, such as the Productivity Commission, into this process will only have the effect of protracting the review and absorbing more public resources, as that body climbs the steep learning curve required to familiarise itself with the history and complexity of the subject matter, to a level at which it is equipped to make credible pronouncements on major payments policy issues.

We note that the report of the House of Representatives' Economics Committee in June entitled *Review of the Reserve Bank of Australia and Payment Systems Board Annual Reports 2005* was generally supportive of the RBA's reforms and concluded that the RBA should carry out the review.

2. How should the review be carried out?

The review should be carried out via public consultation with interested parties, in a similar manner to the RBA's consultations on credit and debit card reform, but with more narrowly focussed objectives.

Stakeholders should be given an opportunity to provide written submissions, supported by expert opinions or reports if required. However, the introduction of expert economic opinions inevitably increases the time and expense involved in the whole consultation process – without yielding any greater consensus- and if it were possible for all parties to dispense with this additional complication, that would be a good thing.

Stakeholders should be strongly encouraged to permit publication of their submissions and supporting material, in the interests of an open and candid dialogue.

3. What should the review take into account?

The review should not attempt to answer the question of whether merchant service fee reductions in 2003 were passed on to consumers. This issue has aroused vigorous and sharply polarised debate, but no real evidence has been forthcoming – or indeed is ever likely to be available- to support either viewpoint. This was recognised by the House of Representatives' Economics Committee in its June 2006 Report. No further public resources should be expended in debating this question. It is time to declare a truce on this issue and move on.

In assessing the effects of the credit card reforms on industry competitiveness and pricing, the review should focus on the RBA's C tables (scheme market shares and average merchant service fees). The RBA has repeatedly indicated its expectation that the average merchant service fees of the three party credit card schemes will decline over time under competitive pressure, even if their combined market share were to rise. As we indicated earlier this year in our testimony to the House of Representatives' Economics Committee hearings on the card reforms, the consistency of this approach amounts to a regulatory policy which has been applied to American Express and with which we have cooperated. We would be very concerned if the RBA were now to establish new criteria by which to assess the success or shortcomings of the reforms.

We remain available to discuss any questions or issues.

Yours sincerely



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