



OVERVIEW

The Payments System Board of the Reserve Bank is responsible for promoting the safety and efficiency of the payments system in Australia. It has the backing of strong regulatory powers, which are intended as "reserve powers" to be exercised when co-operative efforts for change prove ineffective. The Board has now completed its second year of activity.

The Board's direction has been largely set by its initial stocktake of the Australian payments system, detailed in its inaugural Report. This confirmed that Australia scored highly on safety matters but was short of international best practice on efficiency, particularly in the retail payments system. Established retail systems have also come under closer official and judicial review in other industrial countries.

In the retail payments area, the Board's approach to its mandate to promote efficiency has focussed on examining arrangements where there is reason to believe that prices charged for payment services are diverging substantially from their cost. When relative prices accurately reflect relative costs and are transparent, consumers can make well-informed choices and the market will allocate resources efficiently to meet the demand for various payment services. With these objectives in mind, the Board embarked on a major study of interchange fees and conditions of entry in debit and credit card networks, in conjunction with the Australian Competition and Consumer Commission. Interchange fees are wholesale fees that underpin the prices paid for card services by cardholders and merchants. These fee structures have important implications for the efficiency of the retail payments system in Australia, but they have hitherto been subject to very little public scrutiny.

The study concluded that in card networks competition is not working as it should. Interchange fees in ATM and credit card networks are higher than can be explained by costs while in debit card payment networks the case for the existence of interchange fees is not convincing. Cardholders and merchants do not have a direct influence on the setting of interchange fees and there are restrictions on entry to the card networks, both explicit and informal. The normal market mechanisms that could be expected to bring interchange fees into line with costs have therefore lacked potency, with the result that Australia has a higher cost retail payments system than necessary.

The findings of the study have now been published for community discussion. The Board's view is that, once the issues have been fully aired, the onus will be on the financial institutions involved in setting interchange fees and conditions of entry to move quickly to introduce more efficient arrangements.

Not all impediments to efficiency have their origins in price and cost signals. Consumer reluctance to use the direct debit system to pay routine bills, for example, has more to do with issues of control and confidence. The Board has been working with billing organisations to develop consumer safeguards — in the form of a Charter for Direct Debit Customers — that would encourage greater acceptance of this very efficient payment instrument. The Board has also been monitoring the extent to which financial institutions have taken advantage of more efficient cheque-clearing technology and procedures to make cheque funds available to their customers more quickly. It welcomes what has now become industry best practice of a three-day cycle. The demands of electronic commerce will, of course, place existing retail and commercial payments systems under inexorable pressure to become more efficient.

In the safety and stability area, there is now a clear international consensus about the features that payment systems carrying large-value transactions should have. Reforms over recent years, in particular the introduction of a real-time gross settlement (RTGS) system, mean that Australia's domestic high-value payment systems now rate highly against international standards. The Board's detailed assessment of Australia's systems is in this Report. The unfinished agenda under this part of the Board's mandate is foreign exchange settlement risk. The Board has supported a global initiative to address this risk through the establishment of a special-purpose bank — CLS Bank — that will include the Australian dollar as an eligible currency. One agenda item from last year which was successfully concluded was the transition of the Australian payments system through the year 2000 date change.

In 2001, the Board is expected to gain new responsibilities for the regulation of securities clearing and settlement systems of systemic importance. In anticipation, the Board has supported early efforts to encourage rationalisation of securities clearing and settlement systems in Australia.



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