

**Submission to the  
Reserve Bank Of Australia  
On  
The Credit Card Access Regime**



**Australian Retailers Association**

**12 September 2003**

**Contents**

- 1. Background.....3
- 2. Implementation Concerns .....3
  - 2.1 Risk Levels.....3
  - 2.2 Debit Card Supervision .....5
  - 2.3 Assessment Processes .....5
  - 2.4 The Role Of APRA.....6
  - 2.5 Scheme Processing Of Applications .....6
- 3. Summary Of Suggested Actions .....7

**Prepared with the assistance of  
TransAction Resources Pty Ltd**

## 1. Background

This paper has been prepared in response to the RBA paper, *Credit Card Access Regime* dated July 23, 2003. The ARA has not sought to repeat original arguments as submitted previously to the RBA.<sup>1</sup>

Discussions have been held with the Australian Prudential Regulation Authority (APRA), by representatives of the ARA, on a number of practical implementation issues relating to SCCI's. This paper addresses these issues.

## 2. Implementation Concerns

The Reserve Bank of Australia (RBA) in its August 2002 "Reform Of Credit Card Schemes in Australia - IV Final Reforms and Regulation Impact Statement", advised that the Australian Prudential Regulation Authority (APRA) would be the body responsible for oversight of new Specialist Credit Card Institutions (SCCI) entering the Australian credit card acquiring and issuing market.

Following discussions with APRA, we would point out a number of issues that need to be addressed in relation to the introduction of SCCI's and their prudential regulation and oversight. Dealing with these issues at this stage should ensure that the RBA's intended outcomes on card reform are fully delivered, specifically:

- APRA does not intend to make a distinction between the risk levels associated with self acquiring, general acquiring and issuing, in the guidelines for its' prudential and regulatory regime,
- APRA intends to examine the issue of a supervisory framework for debit cards at some point in the future, with no definitive delivery date,
- APRA's assessment processes and costs could be enhanced for more efficient delivery to intending SCCI's, and
- APRA views itself as playing a small role in the card reform process.

A further point we wish to address is the matter of processing of applications by credit card schemes from aspiring new entrants. We would encourage the RBA to closely monitor the membership criteria and assessment timeframes as implemented by the card schemes.

### 2.1 Risk Levels

The ARA has in a previous submission advised the RBA of its concerns with the application of identical risk assessment and prudential criteria to all classes of SCCI. The ARA does not believe that risk assessment or prudential criteria should be identical for issuers and acquirers and further believes that different acquiring activities should also carry different risk and prudential requirements.

---

<sup>1</sup> *Supplementary Submission to the Reserve Bank of Australia: Credit Card Schemes in Australia – Final Reforms and Regulation Impact Statement* – ARA June 2003.

We would also highlight the quite different risk criteria of debit EFTPOS acquiring, when compared to credit card acquiring and issuing. This is a further matter that APRA will need to address (in due course), if SCCI's performing both credit card and debit card acquiring are to emerge.

Following dialogue with APRA, it has now been confirmed that:

- APRA does not see the need for different risk profiles or prudential requirements, for credit card acquirers versus credit card issuers, and
- there is to be no distinction on risk and prudential requirements for entities wishing to engage in self acquiring or general acquiring.

The ARA believes that there are clear risk differences in each of the above activity types and that these should be acknowledged in the APRA guidelines.

### ***Card Issuing Vs Card Acquiring***

The activities of an entity involved in credit card issuing as opposed to one involved purely in credit card acquiring, present fundamentally different risk profiles. Credit card issuers,

- are involved in financial interactions with consumers, both in extending unsecured credit as well as receiving payments. Consumers are also able to operate credit card accounts (as held with issuers) in credit balance, thereby having issuers act as holders of consumer deposits, and
- have large daily liabilities to the card schemes.

### ***Card Acquiring***

Card acquiring by SCCI's can be split into two distinct categories,

- general acquirers, and
- self acquirers.

These two activities differ in that general acquirers would incur daily liabilities to merchants with self-acquirers only incurring liabilities to themselves or related corporate entities. A further acquiring distinction that should be made is that associated with merchants involved in post fulfilment activities. That is, those retailers who provide goods and services to consumers after they have passed a debit to a consumer's credit card account, for example airlines. The guidelines covering general acquiring or self-acquiring in these situations should reflect the differing consumer risk.

The ARA would strongly advocate that APRA formulate appropriate risk and prudential criteria for the above SCCI types, and not seek to apply a 'one size fits all' approach.

**We are concerned that the SCCI prudential standards should not have the effect of stifling the emergence of valid entities capable of enhancing competition and delivering the outcomes intended by the RBA card reforms.**

## 2.2 Debit Card Supervision

**SCCI's intending to perform general and self acquiring must be able to offer both credit card and debit card acquiring services to merchants, or to conduct such activities for themselves.** In discussions with APRA it was made clear that APRA has only recently decided to consider a debit card acquiring supervisory regime. APRA further advised that it intended to look at the question of a debit card supervisory regime at some point in the future, with no commitment that credit and debit access supervision would be delivered together. Such a regime is critical to allow new entrants to the acquiring market to operate as commercially viable SCCI's.

**Should an intending SCCI be unable to perform credit and debit acquiring in parallel, the RBA's intended reforms are unlikely to result in the emergence of a more competitive general acquiring environment. Merchants will be reluctant to participate in split credit card and debit card acquiring.** This would present substantial logistical, settlement and management issues for them.

The ARA while fully supportive of the Standard as published, would urge the RBA and APRA to ensure that modified supervisory guidelines for credit and debit are developed and released as close as practicable to the 31 October credit interchange reform implementation date.

## 2.3 Assessment Processes

The ARA is also concerned that the SCCI assessment process developed by APRA, may not meet the needs of non-bank entities wishing to enter the card market. In leaving prudential standards and other criteria for SCCI access extremely broad, **APRA is providing little guide to intending participants as to the specific criteria that if met, would lead to APRA approval.** APRA advises that a prospective applicant must pay a fee of \$33,000 in order to have a formal application dealt with. The ARA suggests that APRA introduce a "feasibility study" or similar process, with a suitable fee, to allow prospective SCCI's to gain feedback on their proposed business model and method of operation, prior to preparing and lodging a formal application.

An example of this 'all or nothing' approach is the issue of directorships and management of a prospective SCCI. APRA correctly requests that as part of any formal application, an SCCI applicant name directors and management who will be involved in the operation of the SCCI. An entity contemplating entry as an SCCI would however wish to determine the likelihood of being granted SCCI status prior to appointing a senior management team and a board of directors. While directors and management do need to be vetted and approved, this should be at a latter stage prior to final approval.

It would appear that APRA has sought to transpose the access criteria and methodology used in assessment of bank entrants to the Australian market, in assessing SCCI candidates. There are major differences between the two. For example, self-acquirers may be larger retailers who may be contemplating SCCI membership, and would proceed if a sustainable business case could be developed. Such entities must be able to develop such a business case via ongoing dialogue with APRA, without the formality of a fully fledged SCCI application.

## 2.4 The Role Of APRA

The role of APRA is central to the emergence of SCCI's and the subsequent enhancement of competition in the Australian card market (for both issuing and acquiring). APRA however, is of the opinion that it will be playing a "small role" in the overall card reform process.

This divergence of views needs to be addressed. APRA is the body to which prospective SCCI's will look for guidance and assistance in developing their views and business cases for SCCI entry. **Organisations contemplating operating as an SCCI are unable to deal with any other regulatory body on such matters.**

Granting of SCCI status by APRA will also be used by an organisation as a 'mandate' when approaching card schemes seeking entry for issuing and / or acquiring purposes. It is likely that the card schemes may refuse to process membership applications from entities that have not been granted APRA SCCI approval. It is highly likely that SCCI status will also be the first step taken by an organisation wishing to participate in the card market, before submitting a formal application to each of the card schemes.

**It is the view of the ARA that APRA will play a major and critical role in the card reform process, and this should be clearly recognised.**

The ARA would therefore argue that:

- APRA has a responsibility to assist in delivery of the card market outcomes sought by the RBA reforms, and
- APRA should develop a comprehensive set of guidelines within which SCCI's with little or no expertise in Australian bank regulatory regimes can assess their prospective entry, in a collaborative manner with the regulator.

## 2.5 Scheme Processing Of Applications

The RBA has stipulated a date by which credit card interchange reform must be implemented and the framework within which this must be done (31 October 2003). There are however aspects of scheme access reform, which warrant further comment and which are of concern to the ARA. The RBA requires that:

*"Any person who is an authorised deposit-taking institution is eligible to apply to participate in the Scheme in Australia. Subject to paragraph 9, any criteria may be applied by the Scheme in assessing applications for participation in the Scheme in Australia."*<sup>2</sup>

The latter part of this reform regulation, where a scheme is able to apply "any criteria" in assessing access applications, may result in credit card schemes withholding access from eligible participants. It is the ARA's view that the RBA should monitor the access criteria and assessment timeframes as implemented by the card schemes.

Notwithstanding that the RBA has also stipulated that, *"the administrator of the Scheme or a representative of the participants in the Scheme in Australia must publish the criteria applied in assessing applications for participation in the Scheme in Australia on the Scheme's website, or make such criteria generally available through other means as soon as*

---

<sup>2</sup> "Reform Of Credit Card Schemes in Australia - IV Final Reforms and Regulation Impact Statement - August 2002" p. 48

*practicable after this Access Regime comes into force*<sup>3</sup>, there is no definition or stipulation that the scheme must apply reasonable criteria (and what these may be) and assess any applications in a reasonable timeframe.

### **3. Summary Of Suggested Actions**

The ARA understands and supports the need for an appropriate regulatory and prudential framework for the Australian card industry going forward. Such a framework is necessary for the efficient operation and ongoing integrity of the industry. We would urge the RBA and APRA to:

- ensure that a clear distinction is made between the risk levels and prudential standards applied to entities wishing to engage in self acquiring, general acquiring and issuing activities,
- urgently develop a prudential framework for debit cards, allowing concurrent market entry to credit and debit acquiring by prospective SCCI's,
- ensure that access to credit card schemes is available to SCCI's along clear criteria and defined timeframes,
- ensure that assessment processes and costs cater to the constituency being addressed. That is, develop a consultative and supportive approach to interaction with prospective SCCI's at a reasonable up front cost,
- acknowledge that APRA will be playing a key role in the card reform process as seen by prospective entrants.

---

<sup>3</sup> *ibid* p. 49