

# **Bank of Queensland Limited**

## **Submission to**

### **Reserve Bank of Australia**

#### **EFTPOS System Designation**

**8 July 2004**

#### **Background**

In February 2003 the EFTPOS Industry Applicants Group (EIAG) lodged an Authorisation Application with the Australian Competition and Consumer Commission (ACCC) in relation to a proposed agreement to reduce the EFTPOS Interchange Fee, payable between the applicants, to zero.

The EIAG application was finally granted Authorisation by the ACCC in December 2003 following considerable consultation with stakeholders which included financial institutions, the Reserve Bank, individual retailers / retailers' associations and, importantly, consumer groups. With the exception of the retailers, all stakeholders strongly supported the authorisation. In understanding the retailer's opposition to the Application, it is important to note that the retailers have a strong financial interest in maintaining Australia's unique negative EFTPOS interchange arrangements, particularly large retailers who receive a share of the interchange fee paid by the card issuer to the acquirer.

Retailers subsequently lodged an appeal with the Australian Competition Tribunal against the ACCC authorisation. Following a short hearing in April 2004, the Competition Tribunal set aside the Authorisation.

The EIAG authorisation application also flagged the need for a review of the EFTPOS access arrangements which has resulted in the Australian Payments Clearing Association (APCA) working with stakeholders to develop an Access Regime to enable new levels of participation in the EFTPOS system. APCA has made significant progress in developing an access regime and this work is continuing.

#### **The case For Designation of the EFTPOS system**

The public benefits to flow from zero EFTPOS interchange have been identified in the considerable work that has been undertaken by the applicants to the Authorisation Application placed before the ACCC. The Australian Competition Tribunal decision to set aside the ACCC Authorisation has effectively ended the industry attempts to self-regulate EFTPOS interchange fee arrangements that were aimed at reducing consumer transaction costs and driving increased consumer utilisation of the EFTPOS system.

The EFTPOS authorisation application was also to achieve concurrent reform with the credit card interchange fees arrangements, which were implemented on 1 November 2003 as a result of the RBA designation of the four party credit card systems. Concurrent reform would have ensured that there was a dual incentive for consumers, as proposed in the Joint Study, to

migrate payment transaction usage from credit card purchases to the more economically efficient debit card purchases. Unfortunately the ACCC authorisation process delayed the decision on the proposed EFTPOS reform, resulting in the disconnection between the possible implementation of the two reforms.

By having the credit card interchange fee reforms implemented on their own, there was the possibility that some might regard the beneficial effect on consumer behaviour to flow from the debit card reforms as having been diminished. Therefore, it was not unexpected that the retailers put forward this flawed argument to the Australian Competition Tribunal which, unfortunately, appeared to place some credence on it.

Bank of Queensland supports the implementation of a zero EFTPOS Interchange Fee to eliminate the subsidy that card issuers are currently providing to acquirers. In the current regulatory environment we regard the most effective process by which these interchange fee reforms can now be introduced would be through RBA designation.

### **Access Regime**

Bank of Queensland has been a contributor to APCA's EFTPOS Access Working Group deliberations on developing an access regime. We consider that the model being developed has the potential to (1) ensure that the existing smaller EFTPOS participants can more effectively compete with the major issuers and acquirers through enhanced direct participation opportunities, and (2) create greater competition by encouraging new participants.

It is also our view that the EFTPOS Access Regime being developed by APCA will require EFTPOS Interchange Fees be regulated in some way, possibly by adopting a default interchange fee, so as to remove the negotiation of interchange fees as being a potential barrier to entry to new participants.

Interchange Fee regulation could either be achieved by agreement through the APCA EFTPOS Access Regime and subsequent ACCC Authorisation process or through the imposition of a standard under the RBA designation process.

Given the potential uncertainty that would be placed on gaining Authorisation of the APCA Access Regime, should it include a default EFTPOS interchange fee, it would be Bank of Queensland's preference for the RBA to regulate on interchange fees through the designation process.

### **Summary**

Bank of Queensland supports the RBA taking steps to designate the EFTPOS system and would appreciate the opportunity to present its views as to the standards that might be applied to EFTPOS Interchange and Access under the designation process.