Competition and Efficiency

As noted in the previous chapter, in terms of the efficiency of the payments system, the Board's main work has been in the area of retail payments, particularly card-based payments. The reform process has, however, been relatively protracted, running over a number of years. This reflects several factors, including the need to explore with industry the possibility of voluntary reform, the extensive consultations undertaken by the Bank, and the need to respond to legal challenges to the reforms.

The most recent year was marked by two main developments: the new standards on credit cards coming into force, and the designation of the Visa Debit and EFTPOS payment systems.

The Credit Card Reform Process

The credit card reform process was initiated around four years ago with the publication of the Joint Study. This study highlighted three aspects of credit card scheme rules that seemed to be impeding the efficiency of the overall payments system. These were:

- the collective setting of interchange fees;
- the so-called 'no surcharge' rule that prevented merchants from passing on the cost of accepting credit cards; and
- restrictions on scheme membership that appeared to be stronger than needed to protect the integrity of the schemes.

Concurrent with the Joint Study, but quite separately, the ACCC had asked the Australian banks to consider having the setting of interchange fees on credit cards subjected to the test of authorisation under the *Trade Practices Act 1974*. In early 2001, however, the ACCC suggested that the Bank's powers could better address concerns with competition and interchange fees. After a period of consultation, the Bank designated the credit card schemes of Bankcard, MasterCard and Visa in April 2001 as payment systems subject to its regulation under the *Payment Systems (Regulation) Act*. It then undertook a comprehensive process of consultation and analysis to determine whether it would be in the public interest to set standards and impose an access regime on these schemes. Following this process, final standards relating to interchange fees and the no-surcharge rule were published in August 2002 while the access regime was finalised in February 2004 after a further round of consultation.

In September 2002 the reforms were challenged in the Federal Court on procedural and jurisdictional grounds by MasterCard International and Visa International. The Court rejected the challenge in September 2003, finding decisively against MasterCard and Visa.

Standard on merchant pricing

The first of the reforms – the standard on merchant pricing – came into effect on 1 January 2003. Under this standard, the designated credit card schemes of Visa and MasterCard are not permitted to prohibit merchants from passing on the cost of accepting credit cards to customers that use them. Bankcard was not subject to the standard as it had no such prohibition. The Bank also obtained undertakings from American Express and Diners Club to eliminate such prohibitions.

Prior to the standard coming into effect, all acquirers wrote to merchants advising them of their ability to charge a fee for the use of a credit card. Similarly, American Express and Diners Club advised merchants of their ability to charge for accepting their cards.

Standard on interchange fees

The second standard – the standard on interchange fees – came into effect on 1 July 2003. This standard requires that the weighted average of any interchange fees set within schemes not be higher than a cost-based benchmark based on issuers' eligible costs as detailed in the standard. The new interchange fees were required to be published by the schemes and to be in force by 31 October 2003.

In early 2003 each of the schemes appointed an independent expert, agreed to by the Bank, whose role was to gather cost data and calculate the appropriate benchmark. Each of the schemes submitted their benchmarks and supporting analysis to the Bank by end September 2003. With Bankcard and Visa, a series of questions and answers satisfied the Bank that the calculations had been satisfactorily undertaken. In the case of MasterCard, the Bank formed the view that the calculations submitted were not in conformity with the standard. The matter was settled by a ruling in the Federal Court in the Bank's favour, with MasterCard providing revised calculations in line with the Court's ruling. Each of the schemes then set interchange fees such that their weighted average did not exceed their cost-based benchmarks and published their fees on their websites.

As required, the new interchange fee arrangements became effective on 31 October 2003, with the new fees varying slightly across the schemes reflecting differences in costs. MasterCard and Visa have retained a separate rate for electronic transactions and apply the 'standard' rate to those transactions that are either manually processed or are not verified by the cardholder's signature, e.g., transactions over the telephone or Internet (Table 1). MasterCard and Visa also apply a commercial rate for corporate and purchasing cards, and Visa applies a separate

Table 1: Interchange Fees
Per cent of transaction value

	Pre Reform	Post Reform		
		Bankcard	MasterCard	Visa
Standard	1.20	0.49	0.62	0.60
Electronic	0.80	0.49	0.46	0.44

Source: RBA and schemes' websites

rate for recurring debits such as mobile phone accounts. Bankcard applies a single rate to all transactions.

Overall, the new standard has seen interchange fees fall from an average of around 0.95 per cent to around 0.55 per cent.

Access regime

The final element of the reforms was the access regime.

Under the access regime established by the Bank, the card schemes are not permitted to discriminate against potential entrants on the basis of whether they are a traditional authorised deposit-taking institution (ADI) (such as a bank, building society or credit union) or an ADI that is a Specialised Credit Card Institution (SCCI). They are also not permitted to discriminate on the basis of whether the potential entrant will be an issuer of credit cards only, an acquirer of credit card transactions only or both.

The new class of credit card scheme members – SCCIs – was established by the Australian Prudential Regulation Authority (APRA) as part of the overall package of credit card reforms. SCCIs must meet prudential guidelines set by APRA related to the risks they incur as credit card issuers or acquirers.

The regime was not gazetted at the same time as the standards because the prudential requirements that would apply to SCCIs had not been finalised by APRA. APRA released the final prudential standard in July 2003. Following a further period of consultation, the Bank gazetted the access regime in February 2004.

This regime also requires that the schemes publish the conditions for entry of new members and the process they would follow when considering applications. All schemes have met this requirement and potential new entrants will find information on application procedures on the schemes' websites, although the amount of detail varies. Visa has provided a lengthy section on how applications will be assessed. In contrast, Bankcard and MasterCard have provided brief descriptions with a more detailed information pack available on request.

Effect of the Credit Card Reforms

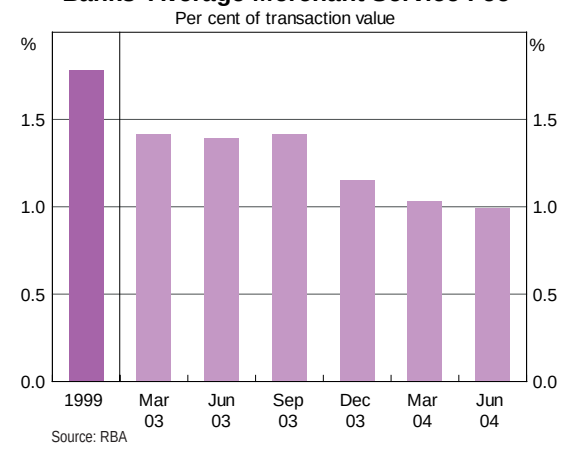
While it is still early days, the reforms have had a number of significant effects on the payments system and on the credit card market in particular. Amongst these, perhaps the most obvious are: a significant reduction in merchant service fees, the introduction of new credit card products and repricing of existing products, the introduction of charges for using credit cards and the announcement of new entrants. Less obvious, but no less important, is the downward pressure on the prices of goods and services that has resulted from a lowering of merchants' costs.

Merchant service fees

Merchant service fees in the regulated credit card schemes have fallen significantly since the introduction of the reforms. According to data collected by the Bank from financial institutions, the average merchant service fee in the June quarter 2004 was 0.99 per cent, compared with 1.41 per cent immediately prior to the standard on interchange fees becoming effective (Graph 3). This fall is broadly in line with the fall in the average interchange fee. Most of the decline

Graph 3

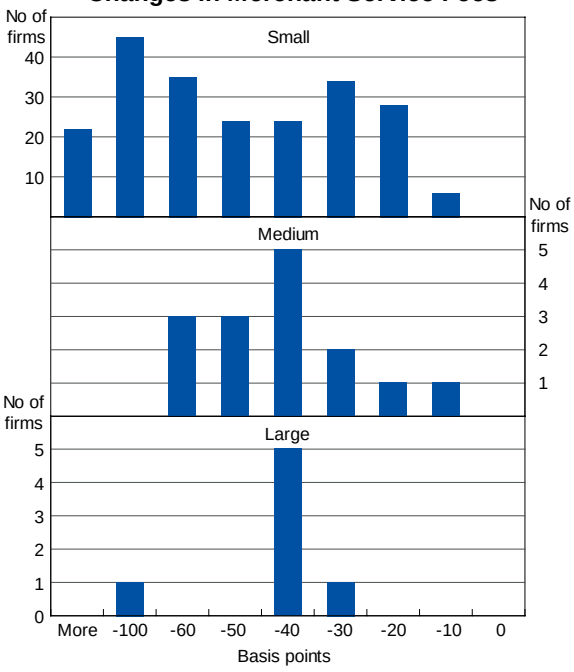
Banks' Average Merchant Service Fee



Source: RBA

Graph 4

Changes in Merchant Service Fees



Source: Merchant Broking Services Australia; RBA

in merchant service fees occurred immediately after the standard became effective on 31 October, although downward pressure on fees appears to be continuing. Based on current spending levels, the fall in merchant service fees represents a saving to merchants of just over $500 million per annum.

In addition to collecting data on merchant service fees, the Bank has met with a large number of merchants in Sydney and Melbourne and obtained detailed data on merchant service agreements for over 200 other merchants. Most merchants visited received substantial unilateral fee reductions, generally matching the reduction in the interchange fees. Many have also been able to negotiate larger reductions than those initially offered, as some banks have used the increased focus on interchange fees as an opportunity to expand their business. Small merchants appear to have done particularly well, although they still face higher fees than large merchants (Graph 4).[2] The liaison also suggests that the average merchant service fee may fall a little further as banks continue to vie for business.

One factor enhancing competition has been the emergence of brokers and industry organisations assisting small businesses to find the best deals. These brokers can save merchants the time involved in negotiating with a range of banks, in return receiving a share of the savings achieved in the first year.

2 *The Bank has data on 218 small firms (annual turnover less than $10 million), 15 medium firms (turnover between $10 million and $500 million), and 7 large firms (turnover greater than $500 million).*

Merchants have also reported that while there have been some increases in terminal fees, charges for paper, and fees for transactions that are charged back, the increases have generally been small. The data collected from the banks confirm this.

Product restructuring

Most credit card issuers have restructured their credit card offerings and pricing over the past year. Annual and other fees have been increased, particularly with cards that offer frequent flyer points as rewards. Some banks have also increased the spending needed to redeem particular rewards. Three out of the four major bank issuers have capped the number of reward points that can be earned in a year: the ANZ Frequent Flyer Visa card limits the total points a cardholder can earn to under 40 000 per year; the Commonwealth Bank limits earnings to 50 000 points per year in its standard rewards program; and the NAB limits earnings to 150 000 points per year. Offsetting this, many issuers have introduced cards featuring introductory low interest rates, both on purchases and balance transfers and Virgin Money entered the market with a credit card featuring a permanently lower interest rate.

On balance, those customers taking advantage of reward programs are paying more, while those who do not pay off their balance in full each month have a greater choice of low-interest rate cards without the more traditional, and more expensive, extra features.

Charging for credit cards

Removal of the so-called 'no surcharge' rule has led some merchants to introduce charges for the use of credit cards. While there are no comprehensive data on the number of merchants that are doing so, examples can be found in a wide range of industries including airlines, business suppliers, computer retailers, clubs, councils, fashion retailers, furniture retailers, government departments, hotels, hardware and gardening retailers, kitchen manufacturers, motorways, removalists, restaurants, schools, supermarkets, travel agents and utilities. In some cases, the ability to charge has allowed merchants to introduce credit cards as a means of payment where previously they did not offer customers this option. Examples of this can be found in competitive low-margin retailing as well as the provision of services by local government.

Most merchants that do charge for credit cards impose a uniform charge across credit and charge cards although some merchants are imposing higher charges for the more expensive American Express and Diners Club cards. There are also a number of examples in which merchants are charging for payments on American Express and Diners Club but not for payments on credit cards.

One effect of the charging for credit and charge card payments is the provision of better price signals to consumers about the relative costs of different means of payment. As such, charging can contribute to the overall efficiency of the payments system. The ability to charge may have also contributed to the downward pressure on merchant service fees discussed above. In particular, the threat of imposing a charge may allow merchants to negotiate a lower fee from their acquirer in exchange for agreeing not to impose a charge.

Access regime

APRA has been working with a number of organisations interested in pursuing SCCI applications. Approval as an SCCI will allow these organisations to apply for participation in the credit card schemes under the provisions of the access regime. In August 2004 GE Money announced that it had received approval by APRA for three of its subsidiaries to become SCCIs under the new arrangements. GE Money is already a member of one of the credit card schemes, but issues cards in Australia on the basis of its ownership of a bank in Ohio in the United States. That business will now be transferred to the new Australian entities.

As required by the access regime, each of the card schemes has either amended its rules to allow members to specialise in acquiring, to remove penalties related to the relative importance of acquiring (so called 'net issuer' rules and penalties) and to allow self acquiring, or has provisions in its rules that make them subject to local regulatory requirements.

Other effects

As noted above, merchants have gained significant savings in merchant service fees as a result of the lower interchange fees. Given the competitive environment in which most merchants operate, these lower fees are likely to eventually find their way into lower prices of goods and services than would have otherwise have been the case. When fully passed through, the reduction in fees would be expected to reduce the Consumer Price Index (CPI) by between 0.1 and 0.2 percentage points. While important, this change is difficult to observe in the overall CPI, which is increasing, on average, by around 2½ per cent per year.

In time, merchants may also receive cost savings through slower growth in credit card use as consumers respond to changed price signals and use other payment options. It is, however, too early to tell what effect the reforms have had on the relative growth of credit cards and other payment methods.

Overall, the changes seen to date are largely as expected. For many consumers, the effective price they face when deciding whether or not to use a credit card has increased, with less generous reward points and charging in some cases. This increase has effectively removed some of the subsidy that frequent users of credit cards have been receiving. In part, this subsidy has been at the expense of users of other payment methods who have been paying higher prices for goods and services as a result of the high merchant service fees. To the extent that prices are lower than they would have otherwise been, users of other payment methods are better off than they were prior to the reforms.

Three-Party Schemes

The credit and charge card schemes operated by American Express and Diners Club are not subject to the Bank's standard on interchange fees. This reflects the fact that, at the time the reforms were implemented, these schemes were almost exclusively three-party schemes with no interchange fee being paid. As noted above, they have removed their 'no-surcharge' rules.

Despite not being subject to the interchange standard, merchant service fees for these schemes have been under downward pressure; over the year to the June quarter the average fee fell by around 13 basis points. This fall, however, is considerably less than that in the four-party

schemes, with the gap between the average fees in the three and four-party schemes widening by around 30 basis points over the past year. While over time this differential would be expected to narrow under competitive pressure, the extent and speed with which this occurs will depend upon the success that merchants have in negotiating with American Express and Diners Club.

A notable development over the past year was the agreement between the traditional three-party schemes and banks to market and issue their cards. Two major banks have entered into agreements with American Express to issue American Express cards. These agreements are similar to those American Express has reached with banks in many other countries and involve the payment of fees to the banks by American Express. A third bank has entered into an agreement with Diners Club under which Diners Club issues cards to the bank's customers and the bank shares the resulting net profits.

One motivation for these arrangements from the banks' perspective is to move customers who accumulate very high reward points on their conventional credit card programs to different cards. The credit card business of many of these customers is unprofitable given the subsidy that is effectively offered for credit card payments. Shifting these customers to American Express and Diners Club, with their higher merchant service fees, may increase the profitability of the overall credit card portfolio, particularly if the higher merchant service revenue leads to a larger payment to the issuing bank than under the traditional four-party scheme.

Whether or not these arrangements have the potential to undermine the Bank's reforms is yet to become clear. Over the past year, there has been a small increase in market share of American Express and Diners Club but this has been from a low base. Many cardholders have yet to decide whether to keep these cards once they have to pay annual fees. Nevertheless, the Board is currently looking closely at the structure of the agreements to assess whether it would be in the public interest to regulate the arrangements. In particular, the Board is focussing on the various fees being paid by American Express and Diners Club to their partner banks and the extent to which they have similar characteristics to interchange fees in the Bankcard, MasterCard and Visa schemes. If competition is putting downward pressure on the merchant fees of American Express and Diners Club, these payments would also be expected to be under downward pressure. The Board is therefore also closely monitoring changes in merchant fees for American Express and Diners Club.

EFTPOS and Visa Debit

The Board has also spent considerable time examining debit cards over the past year. In particular, it has focussed on the issues of whether the interchange fee arrangements in the EFTPOS and Visa Debit card systems promote the efficiency of the overall payments system and whether access arrangements to the EFTPOS system are conducive to strong competition.

Although both the EFTPOS and Visa Debit systems allow cardholders to make point-of-sale purchases using a deposit account, they have very different interchange fee arrangements. In the EFTPOS system the interchange fee is normally a flat fee and paid by the issuer of the card to the institution that acquires the transactions. The fee is negotiated bilaterally and averages around $0.20 per transaction. In contrast, in the Visa Debit system the interchange fee flows the other way and, as with credit card purchases, is based on a percentage

of the amount spent – 0.44 per cent for a transaction at the point of sale and 0.60 per cent for all other transactions.

The Joint Study and subsequent analysis have not found a convincing rationale for either of these fees. In the case of EFTPOS, the evidence suggested that the costs and revenues on the issuing and acquiring sides of the business were not significantly different. As a result, the standard 'balancing' argument that interchange fees are necessary for a payment system to operate does not appear to be relevant. This conclusion was supported by the observation that Australia is almost unique in having interchange fees flow from the issuer to acquirer. In the case of Visa Debit, the Joint Study noted that there seemed no justification for the same interchange fee to apply as in credit cards. In particular, a scheme-based debit card, unlike a credit card, does not involve the extension of credit on interest-free terms.

Over the past year the Board has analysed how these differences in interchange fees have affected, and are likely to affect, the behaviour of cardholders, merchants and issuers. It has also considered the relationship between the interchange fees in the credit card and EFTPOS system. It concluded that these interchange fees were likely to have significant effects on the long-term incentives for issuers to support both schemes.

The potential for interchange fees and scheme rules to affect the structure of the payments system was well illustrated by a recently concluded court case in the United States. A large group of merchants, led by Wal-Mart, sued MasterCard and Visa over their activities related to their debit cards and, in particular, the 'Honour All Cards' (HAC) rule. This rule required merchants that accept MasterCard and Visa credit cards to also accept their debit cards, despite the fact that competing PIN-based debit cards (equivalent to Australian EFTPOS cards) were significantly cheaper to accept. Compounding the merchants' concern was the fact that spending on scheme debit cards was considerably larger than spending on PIN-based debit cards (Table 2). The case was eventually settled when MasterCard and Visa agreed to: revoke the rule as it applied to their debit cards; reduce their interchange fees for debit cards; clearly identify their debit cards; and pay a multi-billion dollar settlement.

Table 2: United States Debit Card Transactions

Market share

	1993	2003
MasterCard	7	12
Visa	32	48
PIN-based	61	40
TOTAL	**100**	**100**

Source: Nilson Report, Issue 809,April 2004

In Australia, Visa Debit has not achieved the same market penetration as in the US. This reflects the fact that it is mainly smaller institutions that issue the card. Nonetheless, the same concerns as applied in the US are relevant in Australia. Looking forward, given the large differences in interchange fees in the EFTPOS and Visa Debit systems, there may be an incentive for issuers to issue scheme-based debit cards in preference to EFTPOS cards, despite scheme-based debit cards having higher overhead expenses and higher rates of fraud.

Given that the prices customers and issuers are responding to bear little resemblance to the underlying costs – partly as a result of the size and direction of the interchange fees – the

Board has been of the view that the efficiency of the overall payments system could be enhanced through further reform.

The Bank had asked Visa and institutions that issue Visa Debit cards (mostly credit unions, building societies and some regional banks) to address its concerns about the Visa Debit system. Although some progress was made, discussions were complicated by the fact that issuing institutions could not effectively discuss what would amount to the collective setting of interchange fees. Given this and its previous analysis, the Board determined that it would be in the public interest to designate the Visa Debit system.

In the case of EFTPOS, an industry working group was formed in 2002 to examine options for reform of interchange fees. The result was a proposal to set these fees to zero. The ACCC initially proposed to deny the application due to concerns about access arrangements. In response, the Australian Payments Clearing Association (APCA) committed to developing an access regime and the RBA indicated that, were these efforts to falter, it would consider designating the EFTPOS system to achieve access reform. These actions satisfied the ACCC that access reform would occur in the short to medium term. In light of this, the ACCC authorised the application in December 2003. This decision was then overturned by the ACT in May 2004 after an appeal by a number of merchants. Following that decision, the Board invited submissions from interested parties on whether it would be in the public interest for it to designate the EFTPOS debit card payment system under the *Payment Systems (Regulation) Act*. Following that process, the Board concluded that designation was in the public interest and on 9 September 2004 the Bank designated the EFTPOS system. Following a request from the Australian Merchant Payments Forum and its members, the Bank provided a document setting out the reasons for the decision. The document was published on the Bank's website on 14 October 2004.

The Board has asked for submissions from interested parties on standards it might apply to Visa Debit and the EFTPOS system. It will consider those submissions and undertake its own analysis with a view to developing possible standards. A draft of any such standards will be made available for comment prior to finalisation.

Access regime for EFTPOS

APCA has been working to develop an access regime for the EFTPOS system over the past year. Most responses to the Board's invitation to comment on whether designation of the EFTPOS system would be in the public interest argued that APCA was making acceptable progress and that there was no need for regulatory intervention. At this stage it is not the Board's intention to establish an access regime for the EFTPOS system under the *Payment Systems (Regulation) Act*, although it will monitor progress carefully and will keep the situation under review.

Automated Teller Machines

There are currently over 20 000 ATMs deployed throughout Australia. They processed over 741 million transactions worth over $124 billion in the year to June 2004 and around 48 per cent of these were withdrawals from ATMs not owned by the cardholder's financial institution, so called 'foreign' ATMs. The average amount of a withdrawal was $169, with withdrawals at foreign ATMs significantly smaller than own ATM withdrawals.

In its work on ATMs, the Joint Study noted that the price of withdrawing funds from a foreign ATM appeared to be much higher than the cost of providing the service. Part of the reason for this is the interchange fee arrangements in the ATM system. Like the EFTPOS system, the Australian ATM system is built on a series of links between card issuers and ATM owners, including the major banks and some industry groups. As part of these links, fees are paid from the card issuer to the owner of the ATM to reimburse the ATM owner for providing services to the issuer's customers. This interchange fee is negotiated bilaterally between the card issuer and ATM owner although there is considerable uniformity across agreements. The average interchange fee is a little over $1 and has changed little since the 1980s when many of the links were first established.

When a cardholder uses a foreign ATM, their bank pays around $1 to the ATM owner. The cardholder's bank typically charges the cardholder a 'foreign fee' which recovers not only the interchange fee but also adds a margin. Foreign fees are currently around $1.50.

The Joint Study found that the average cost of a withdrawal at an ATM was around $0.50 in 1999. Even allowing for cost increases, this suggests that cardholders using other institutions' ATMs are likely paying substantially more than the cost of the service. The Joint Study concluded that one reason for this was a lack of competitive pressure on interchange fees.

As for EFTPOS and Visa Debit, the industry has been working on reforms that would see increased competitive pressure on foreign ATM charges. Prior to the ACT decision on EFTPOS, the industry had found what it regarded as a suitable way forward. This proposal involved a combination of direct charging for foreign transactions by most ATM owners and the formation of 'no-charge' networks by some smaller institutions. ATM owners would either levy a direct charge or receive an interchange fee; they would not do both. However, following the ACT's EFTPOS decision, some participants indicated that they were reassessing their commitment to a process that they viewed as expensive and offering an uncertain outcome.

Responding to these concerns, in June 2004 the Board sought the views of interested parties on whether it would be in the public interest for the Bank to designate the ATM system. Although there were some differences of view, many industry participants argued that the industry-led reform process should be allowed to continue. After considering the range of views put to the Board, it was decided not to designate the ATM system at this stage and to allow this process more time.

Access

As with the EFTPOS and credit card systems, access is important to the competitive functioning of the ATM system. To date, however, there has been little industry work on formulating an access regime for the ATM system, although members of the ATM industry working group have recently requested that APCA begin work on such a regime. This work should be able to draw on the experience that APCA has gained through its development of the EFTPOS access regime. The Board supports this work and will be monitoring progress closely.

Fraud

Over the past year, the Board has monitored a range of developments aimed at combating fraud in the payments system. It is conscious of the need for better data on this important topic. It has followed with interest discussions within the industry about the possible introduction of chip-based cards to replace magnetic stripes and the use of PINs rather than signatures to authorise transactions. Changes of this magnitude require careful planning, including establishing incentives that encourage both card issuers and acquirers to make the necessary investments in an efficient manner. The Bank has held discussions with a range of participants on these questions over the past year with a view to assessing whether there is a role it can play in the industry's analysis of these issues.

Purchased Payment Facilities

When the *Payment Systems (Regulation) Act* was enacted in 1998, it included a section on regulation of purchased payment facilities. Purchased payment facilities are facilities in which consumers pay in advance for an instrument that can be used to make a variety of payments. The value paid up front by the consumer is known as the stored value. Electronic cash and smart cards are examples of purchased payment facilities as are some payment facilities for use over the Internet.

In its 1997 report, the Wallis Inquiry came to the view that, since firms offering these facilities are holding funds on behalf of consumers, some regulation was required. Part 4 of the *Payment Systems (Regulation) Act* therefore required holders of stored value to either be an ADI, and hence be supervised by APRA, or have an authority or exemption issued by the Bank. This was designed to give security to the value and therefore protect the interests of consumers and promote public confidence in the system.

It became apparent, however, that if such facilities allowed for the repayment of value, either in part or in full, to the cardholder, the facility was very similar to a deposit at an ADI. In 2000 the Government therefore endorsed an approach agreed by the Bank and APRA that deposit-like purchased payment facilities would be regulated by APRA. Such an approach would ensure that these facilities, whether issued by an ADI or otherwise, would be regulated under a consistent regime.

To be regulated by APRA, the facility must be similar to a deposit. There is a two-pronged test for this:

- the facility is available for purchase and use on a wide basis; and
- all or part of the facility's unused value is repayable on demand in Australian currency.

This arrangement nevertheless left some uncertainty about the regulatory framework for facilities not eligible to be supervised by APRA. The definition of a purchased payment facility in the *Payment Systems (Regulation) Act* is very broad. As a result, many limited-purpose systems and products that have never been subject to regulation are potentially captured, such as pre-paid transit cards and gift certificates. It was also uncertain how schemes in pilot or test phase were to be treated. Furthermore, the *Financial Services Reform Act 2001* required, as part of its new licensing regime, providers of purchased payment facilities to be licensed by

the Australian Securities and Investments Commission (ASIC). This created the potential for facilities to go through two overlapping licensing processes with the Bank and ASIC.

To address these issues, the Bank announced in March 2004 some class exemptions for purchased payment facilities. The objective was to promote competition while ensuring public confidence in the systems and not imposing unnecessary regulatory burden on those facilities that are unlikely to pose material risk to users. In particular, a purchased payment facility will not be subject to the *Payment Systems (Regulation) Act* where:

- the total outstanding amount of the facility is limited to less than $ 1 000 000, or where a facility can be used to make payments to 50 or fewer persons; or
- its obligations are guaranteed by an ADI, or by a Commonwealth, state or local government authority.

These exemptions should allow small, relatively closed facilities and pilot schemes to operate without regulation. Facilities that do not meet these criteria and are not otherwise regulated by APRA will be considered for authorisation on a case-by-case basis. To date the RBA has not specifically authorised or exempted any purchased payment facilities.