



Australian Financial Counselling & Credit Reform Association Incorporated

ABN: 67 073 167 361

Chairperson: Jan Pentland

Secretary: Joanne Lowth

30 April 2005

Dr John Veale
Head of Payments Policy
Reserve Bank of Australia
Via e-mail: payments@rba.gov.au

Dear Dr Veale,

Visa Debit and the risk of increased credit card use

The Australian Financial Counselling and Credit Reform Association (AFCCRA) is the peak body in Australia representing financial counsellors. Financial counselling services provide a largely Government funded, free, confidential and independent debt and money management service to low income, marginalised consumers. I write on behalf of AFCCRA to express the concerns of financial counsellors across Australia about the Reserve Bank of Australia's (RBA) proposed reforms to Visa Debit.

I understand from discussions with the Australian credit union sector that the reforms the RBA has outlined in the draft standards include the removal of the honour all cards rule, and significant cuts in the wholesale fees paid to institutions on Visa Debit.

While the detail of the reforms is a complex issue, financial counsellors generally are alarmed at the suggestions from the smaller Visa Debit institutions that the end result of your reform proposals would be less Visa debit cards and greater commercial incentives to move customers over to credit cards.

Financial counsellors are supportive of the Visa Debit product and its continued operation in Australia. Working with low income, marginalised consumers, financial Counsellors are aware of the following useful features of Visa Debit:

- Visa Debit offers an important alternative for consumers who don't want, or who don't qualify for credit cards;
- It provides the functionality of a credit card without the risk of consumers overspending or accumulating high levels of revolving credit;

- It is a useful budgeting tool, especially for younger people who seek a ‘credit card like’ product for shopping, travel, ticket bookings, etc. but who would face challenges if they accrued expensive credit card debt;
- It is similarly useful for older people and families on limited incomes;
- It is generally low fee for consumers;
- It allows customers of smaller banks and credit unions internationally and nationally recognised access to their money wherever they are, promoting some diversity and competition in banking.

Of greatest concern to financial counsellors is the prospect of the RBA’s reforms advancing the growth of credit cards if Visa Debit is forced out of the market. It is not accidental that the larger banks and other providers promote credit cards over alternative payment options as there is more money to be made from encouraging consumers into expensive revolving credit than in providing access to their own money.

The credit union sector has said publicly that in its view, the draft reforms with no allowable costs for fraud prevention, and the big difference between credit card interchange and Visa Debit is likely to encourage increased use of credit cards. Consumers who do not qualify for a credit card would presumably find themselves with access only to a straight debit card and therefore excluded from many purchases and payments (booking tickets, making reservations, using the internet to shop or pay bills, paying bills over the phone and so on).

However, more important is the risk of increased use of credit cards. Financial counsellors know from their day to day casework experience, the damage that revolving credit can do, and the difficulties many consumers have in managing the resulting debts. If the RBA introduces reforms that reduce the acceptance of Visa Debit, and sets the wholesale fees at a level far below credit cards, or below fair costs, it seems likely that institutions will stop issuing Visa Debit cards and move their customers over to credit cards.

Pushing more consumers to charge cards and credit cards does not improve competition and efficiency in the payments system while raising the risk of even higher levels of personal indebtedness. Financial counsellors are well aware of the financial overindebtedness of the Australian community and the risks and heartache that exacerbating this situation will bring.

I appreciate that the Visa Debit institutions have a clear interest in having the interchange fees on Visa Debit set as high as possible. Clearly, we would not support that argument and I note that there seems to be general agreement that a reduction in Visa Debit interchange is a reasonable proposal.

However, the RBA’s draft proposals on Visa Debit risks a situation where credit cards become a much more attractive option than Visa Debit. The outcome which is of concern to financial counsellors is likely to be that credit card use increases and a useful and sensible product in Visa Debit is taken out of the market.

Financial counsellors encourage the RBA, in finalising its reform proposals, to consider the role and value of Visa Debit in the Australian market, particularly for

low income, marginalised consumers. AFCCRA, representing the financial counselling sector and our client group, is strongly opposed to an outcome that makes credit cards more appealing to consumers or to banks or to others in the market.

Thank you for considering AFCCRA's concerns in this matter. If you require further information or clarification, please contact me on 0407 042 483.

Yours faithfully,

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