

Dr Tony Richards
Head of Payments Policy Department
Reserve Bank of Australia

3 February 2016

Dear Dr Richards,

RE: Reserve Bank of Australia (RBA) Review of Card Payments Regulation Consultation Paper (December 2015)

ANZ welcomes the opportunity to respond on the RBA's proposed changes to regulations that govern the Australian Payments System, following the RBA's 2015 Card Payments Regulation Review.

As an industry leader in the Australian Payments System, ANZ has sought to actively engage with the RBA and across the industry to help ensure that any proposed changes fully consider impacts on customers and merchants, and on the security, stability and efficiency of the payments system.

ANZ believes the RBA's draft standards covering changes to regulations are broadly workable. Notwithstanding that, there are some issues arising from the draft standards that ANZ believes warrant further consideration by the RBA:

- Moving from 3-yearly to quarterly review of weighted interchange rates and caps ('resets')
 - ANZ supports moving to a more frequent review of weighted interchange rates and caps, however given the complexity and interdependency of the transaction processing and pricing systems across card acquiring and issuing, quarterly 'resets' would introduce significant compliance costs for schemes, issuers, acquirers and merchants.
 - Annual resets would achieve the RBA's underlying objective of reducing upward interchange 'drift' between 'resets' at a much lower cost.
- Inclusion of Commercial Cards in the 80bps interchange 'hard cap'
 - While ANZ supports the continued regulation of Commercial Card interchange, the proposed 80bps 'hard cap' does not reflect the distinct business model these cards have, and the value they provide to merchants who accept B2B payments (i.e. having invoices paid sooner and more efficiently).

- Furthermore, such a change would reduce competition against unregulated 3-party scheme cards, which could lead to higher costs for merchants who accept B2B payments.
- To address these issues, ANZ proposed that an alternative 'hard cap' of ~120bps apply to Commercial Cards that have business or corporate liability. Such a modest cap would avoid the need to change existing 'honour-all-cards' rules. By targeting this change, the RBA can effectively eliminate incentives for issuers to migrate their consumer credit card portfolios to take advantage of the higher cap.

As acknowledged by the RBA, the draft standards include some proposed changes to areas that were not previously considered in the Issues Paper. Specifically, the RBA proposed that issuers might circumvent domestic interchange fee caps by issuing foreign-based cards. In response to this concern, the RBA proposes the inclusion of interchange from foreign-cards being included in the domestic interchange fee cap. ANZ believes such a change would add unnecessary complexity and that alternative approaches need to be more fully considered and impacts across the industry assessed before the RBA's position is finalized.

Implementation timeline

In response to the Financial System Inquiry and the RBA's 2015 Card Payments Regulation review the Government has introduced legislation in relation to merchant surcharging. ANZ proposes that the RBA direct industry to prioritize and focus on implementing changes that will support this legislation ahead of other changes.

In regards to the other changes proposed, ANZ believes they represent a significant shift in the functioning of the card payments industry. In order for issuers and acquirers to formulate a balanced response to these changes we'd need to reassess a large number of commercial arrangements with partners across the payments ecosystem. Sufficient notice should be provided to allow participants to mobilise finite resources to make required system, process and commercial changes.

The implementation timeline must also avoid compromising the important investments currently being undertaken in innovating and strengthening the payment system in Australia, including the New Payments Platform (NPP), contactless and online acceptance for the domestic payment system, and the development of mobile-NFC payment propositions.

With these factors in mind, ANZ proposes the following implementation period:

- Merchant surcharging: 6 to 9 months
- Annual observance of interchange fee caps ('interchange resets'): Next occurs on 1 November 2016, and annually from thereon
- Other changes: 18 to 24 months

ANZ strongly believes that by taking such an approach the RBA will minimize transition costs and disruption across the industry. It is also consistent with the Government's response to the Murray Financial Systems Inquiry recommendation that industry be given more time to respond to complex regulatory changes (recommendation 31).

We are grateful for the RBA's continued consultation with ANZ on these issues, and are available to participate in working groups or in other ways to help effectively implement these proposed changes. We would be pleased to answer questions in relation to this submission.

The appropriate contact is Ms Katherine Bray, General Manager – Deposits & Payments. (Katherine.Bray@anz.com 03 8655 3160).

Yours sincerely

Matt Boss
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