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## 1. BACKGROUND

Over the past three years, the Reserve Bank has been reviewing the operation of credit card schemes in Australia.

The original motivation was the 1997 *Final Report* of the Financial System Inquiry (the Wallis Committee), which highlighted arrangements for wholesale fees (known as “interchange” fees) and restrictions on access to credit card schemes as areas of policy concern, and recommended that these concerns be considered by a new Payments System Board in the Reserve Bank and by the Australian Competition and Consumer Commission (ACCC). In response to the Inquiry, the Payments System Board and the ACCC undertook a detailed study of debit and credit card schemes in Australia and set out their findings in the publication, *Debit and Credit Card Schemes in Australia: A Study of Interchange Fees and Access*, which was released in October 2000 (the “Joint Study”).

The Joint Study highlighted the role of private-sector regulations in the operation of “four party” credit card schemes. These regulations, which are discussed in the following Section, govern the collective setting of interchange fees, restrictions on merchant pricing and criteria for participation in the schemes. The Joint Study raised a number of public interest issues relating to competition and efficiency in credit card schemes and other payment networks, but did not contain recommendations for action by regulatory agencies.

In April 2001, following consultations with interested parties, the Reserve Bank designated the credit card schemes operated in Australia by Bankcard, MasterCard and Visa as payment systems subject to its regulation under the *Payment Systems (Regulation) Act 1998*. This Act gives the Reserve Bank power to designate a payment system and to set standards or impose an access regime on that system if the Reserve Bank believes it is in the public interest to do so.

In December 2001, following consideration of a large number of submissions and extensive consultation with interested parties, the Reserve Bank gazetted draft standards under section 18 of the *Payment Systems (Regulation) Act 1998* dealing with the setting of interchange fees and restrictions on merchant pricing in the designated credit card schemes. It also gazetted a draft access regime under section 12 of the Act dealing with eligibility for participation in these schemes. As required by the Act, the Reserve Bank invited submissions on the proposed reforms from interested parties. In a publication released at the same time, *Reform of Credit Card Schemes in Australia: A Consultation Document*, the Reserve Bank reviewed the main regulations imposed by the designated credit card schemes from the public interest viewpoint and explained the reasons for its proposed reforms.



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The relevant sections of the *Payment Systems (Regulation) Act 1998* are provided in [Attachment 1](#).

The Reserve Bank did not designate the “three party” card schemes, the American Express card system and the Diners Club card system. These schemes do not have collectively set interchange fees nor restrictions on entry enforced by existing members, and the Reserve Bank saw no case on public interest grounds to designate these schemes to deal with these issues. However, American Express and Diners Club do impose restrictions on merchant pricing and the Reserve Bank indicated in the Consultation Document that it would be consulting these schemes as to why they should not also be required to meet the standard on merchant pricing.

The Reserve Bank’s reform measures deal only with the regulations of the credit card schemes governing the collective setting of interchange fees, restrictions on merchant pricing and entry to the schemes. The measures do not deal with the relationships between individual scheme members and their customers, which are not covered by scheme regulations. Hence, they do not cover the setting of credit card fees and charges to cardholders and merchants, or interest rates on credit card borrowings.

The Consultation Document also provided a description of earlier official scrutiny of credit card schemes in Australia. This is summarised in [Attachment 2](#).

## **2. THE PROBLEM**

Normal market mechanisms are not working effectively in the retail payments system in Australia and, overall, the community is paying a higher cost for retail payments than is necessary.

In Australia, financial institutions provide the community with a range of instruments – cash, cheques, direct entry, debit cards (EFTPOS) and credit cards – with which to make its payments. With the exception of credit cards, the prices charged by individual financial institutions to their customers for payment instruments, on a “user pays” basis, increasingly take account of the costs incurred in providing those instruments.

The price signals facing customers using credit cards are established on a different basis. Financial institutions in Australia provide credit card payment services as members of one or more four party credit card schemes – the two international schemes, MasterCard and Visa, and the domestic scheme, Bankcard (Box 1). These schemes have a set of regulations, which their Australian members collectively determine or agree to enforce, that have a significant influence on the prices which financial institutions charge for providing credit card payment services.