

**Australia and New Zealand Banking  
Group Limited**

**Submission to the  
Reserve Bank of Australia**

**Resource Costs of Alternative Payments Systems**



**14 August 2001**

Australia and New Zealand Banking Group Limited

Level 32, 100 Queen Street

Melbourne Victoria 3000

Tel: 03-9273 5555

Fax: 03-9273 4875

03-9273 4740

Email: [gerard.brown@anz.com](mailto:gerard.brown@anz.com)

[hartzerb@anz.com.au](mailto:hartzerb@anz.com.au)



# Resource Costs of Alternative Payments Systems

## 1. Background

One of the claims made in the *Joint Study*<sup>1</sup> of debit and credit card schemes in Australia was that the structure of credit card schemes encourages excessive use of credit cards, at the expense of other payment instruments, such as debit cards and direct debit, whose services are less costly to produce. For example, on pp76-77 of Chapter 7, *Findings and Conclusions*, the *Joint Study* states:

“The total resource costs to acquirers and issuers of a \$100 credit card payment is \$2.36. Included in this figure is \$0.35 per transaction for credit losses, a proportion of which is associated with use of the revolving credit facility; excluding these credit losses, the cost of a \$100 credit card transaction is \$2.01. This is five times the cost of a debit card. transaction for the same amount, which is \$0.41. On the same basis, a \$1000 credit card transaction costs almost 13 times more than a transaction for the same amount using a debit card.

Given these differences, the current mix of payment instruments involves a substantial resource cost to the Australian economy. Over 1999/2000, for example, Australians made around 620 million credit card transactions at a total resource cost (excluding credit losses) a little below \$1.3 billion. The total cost of the 635 million debit card transactions over the same period was \$254 million.”

The *Joint Study*'s conclusions were based on aggregate and average data from many financial institutions. ANZ is concerned that these conclusions were affected by important issues of data definition, comparability and consistency. In this submission, ANZ presents data on the cost, to ANZ, of its customers making transactions using alternative payments instruments. These are new data which have been calculated specifically for the purpose of this submission. **The principal conclusion is that, contrary to the conclusions of the *Joint Study*, the cost to ANZ of a credit card transaction is only marginally different than for a debit card transaction. This appears to be mainly because the *Joint Study* excluded significant debit card costs associated with account maintenance.**

It should also be emphasised that these data relate only to the costs to ANZ of its account holders making purchases using various instruments. The data do not include the differential costs incurred by ANZ when, for example, merchants deposit their takings from transactions made using different payments instruments. This information is not included in this submission because the data do not exist. In the absence of these important data, however, (and ANZ doubts that the relevant data exist for any major financial institution), ANZ questions whether the strong conclusions made in the *Joint Study* about the resource costs to society of payments being made using different instruments has any reliable factual basis.

<sup>1</sup> Reserve Bank of Australia and Australian Competition and Consumer Commission, *Debit and Credit Card Schemes in Australia: A Study of Interchange Fees and Access*, October 2000.

## 2. Resource costs of Different Transaction Types

This section contained commercially sensitive information and therefore has been removed.

## 3. Conclusions

Analysis of the costs incurred by ANZ when its customers use different payment instruments shows that the costs of credit card transactions is not significantly higher than the cost of debit card transactions. This is contrary to the findings of the *Joint Study*, which were that credit card transactions consume many more resources than debit card transactions. It would appear that the *Joint Study* omitted an important category of costs in its analysis of debit card transactions, viz account maintenance costs.

This analysis has excluded the costs incurred by ANZ when such transactions are completed e.g. when merchants deposit their takings, where these takings have been received from one of several payments mechanisms. These costs have been excluded because the data required to undertake the analysis do not exist.

The key point is that the *Joint Study* did not compare “apples with apples” in respect of costs per transaction per payment type. Although the analysis presented in this submission could be enhanced with better data, it is a large improvement on what was reported in the *Joint Study*, because the same Activity Based Costing methodology has been consistently applied to all the transaction types. The result is a good indicator of the relative costs of each. An important conclusion is that a consistent costing methodology needs to be established as part of any process to collect such information. This was clearly not done in the case of the *Joint Study*, yet far-reaching conclusions, such as that resource costs of debit significantly exceed those of debit card transactions, were still drawn.

The *Joint Study*'s conclusion that the growth of credit card transactions vis a vis debit card transactions represents a misallocation of resources, based on relative cost comparisons, is not warranted. This is particularly so given that credit card transactions offer a higher quality service to consumers (the ability to smooth consumption, the option value of the associated long term credit facility, and so on).