



Abacus
Australian Mutuals

Association of Building Societies and Credit Unions

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Dear Dr Veale

2007 Review of Payments Reform – Abacus Comments

Thank you for the opportunity comment on the 2007 review of the reforms to card payments systems. Please accept my apologies for the delay with our submission.

Abacus – Australian Mutuals is the main industry body for credit unions and mutual building societies. Credit unions and mutual building societies are card issuers and are owned by cardholders. We believe that the Reserve Bank of Australia's reforms have disproportionately benefited acquirers and merchants, at the expense of card issuers and cardholders.

Scope

The review of card payment systems must examine whether the unbalanced distribution of benefits among primary stakeholders can be justified by clear and demonstrable improvements to payments system competition and efficiency.

The RBA's reforms have resulted in arbitrary and grossly inconsistent interchange fees standards and methodologies for credit cards, scheme debit cards and EFTPOS debit cards. The review must consider the importance of the principle of policy consistency when regulators intervene in markets to set prices.

The singularly heavy-handed intervention into the Visa Debit system must be closely scrutinised for its impact on card issuers, cardholders and payments system efficiency. Visa Debit issuers face a reduction in average interchange fees from around 44 cents per transaction to around 12 cents from 1 November 2006 and removal of the Honour All Cards rule from 1 January 2007.

The RBA's consistently negative attitude towards Visa Debit's place in the market was illustrated by Assistant Governor Philip Lowe's evidence to the House of Representatives Economic Committee on 15 May 2006. Dr Lowe ignored the existence of Visa Debit when discussing online transactions, claiming that:

"...you have to use your credit card if you want to buy something online. There are many customers who do not like that and, as I said before, only 55 per cent of adult Australians have a credit card, so they are excluded from those sorts of transactions."¹

More than 4 million Visa Debit cardholders, including more than 1.2 million credit union and building society members, have a card that can be used online, as well as through the mail and over the phone, without adding to the explosion in credit card debt or requiring cardholders to enter into credit contracts.

¹ House of Representatives Economics Committee Hansard 15 May 2006.

Abacus strongly supports the recommendation of the House of Representatives Economics Committee that the review assess impacts of removing the Honour All Cards rule for Visa Debit.²

Although the Committee formed a view that it was unlikely that merchants would not accept scheme debit cards, Abacus remains concerned that the RBA's decision has the potential to limit consumer choice while strongly advantaging merchants. The issue of card acceptance is important for Abacus and its member organisations for several reasons, including cardholder confusion at POS, accessibility of funds for members and possible confusion about the status of issuing institutions.

The 2007 review should also examine whether the RBA's last-minute carve-out of 'cash out' EFTPOS debit transactions has had a muting effect on the benefits of reducing other EFTPOS debit interchange fees.

Unregulated 'cash out' interchange fees could interfere with, or block, price signals to cardholders flowing from reductions in regulated EFTPOS debit interchange fees.

The RBA's payment system reforms have focused on the relative costs to issuers, acquirers, merchants and cardholders of different card products. The RBA has not undertaken a detailed analysis of the costs of cash as a payment instrument.

Abacus emphasises that cash distribution costs are significant and increasing for credit unions and building societies. An understanding of the costs of cash to all stakeholders is critical in assessing the competitive and efficiency impact of payments reform.

For example, it would be useful to measure the extent to which merchants can lower cash handling costs by providing EFTPOS cash out, along with assessment of the relative costs and benefits of cash against other payments instruments.

Process

Abacus urges a public and transparent review that is, as far as possible, independent. We anticipate opportunity for stakeholder involvement in a detailed consultation process, and would welcome the opportunity for comment on draft findings.

We note the conclusion of the House of Representatives Economics Committee that it is appropriate for the RBA to review its own reforms, "*given the expertise it has built up throughout the reform process.*"³

However, the value of the review for all stakeholders would be enhanced if the process were to take account of concerns that the authors of the reforms are appraising their own work.

The RBA has indicated that any changes flowing from the review are unlikely to come into effect until 2009.⁴ Abacus suggests that the RBA should be prepared to act promptly where policy settings are not working or are delivering unfair results for issuers and cardholders.

Abacus looks forward to contributing to the review process as plans progress.

Yours sincerely



LOUISE PETSCHLER
Head of Public Affairs

² Review of RBA and PSB Annual Reports 2005 (1st Report) House of Representatives Economics Committee 7 July 2006.

³ Review of RBA and PSB Annual Reports 2005 (1st Report) House of Representatives Economics Committee 7 July 2006.

⁴ Reform of the EFTPOS and Visa Debit systems in Australia - Final Reforms and RIS, April 2006.