



NEWS RELEASE

Opening remarks to Parliamentary Committee review of RBA and PSB Annual Report

Public hearing of the House of Representatives Standing Committee on Economics, Finance and Public Administration. Sydney, 15 May 2006

Comments by Mr. Bruce Mansfield, Executive Vice President, Australia and New Zealand, Visa International.

Mr. Chairman, thank you for the opportunity to address the Committee and answer questions on this important matter. The Committee has a copy of our submission, so I will not go through it detail here. Rather, I would like to speak briefly about ways in which we believe the Committee may wish to proceed to overcome the problems that have been thrown up by these regulations.

First, let me emphasize a point that has already been made here today, that it is no surprise that consumers are paying more to use their credit cards. This was the intention of the Reserve Bank all along. In the Bank's view cardholders were being subsidized to use their cards and thus the wrong price signals were being sent.

However, there have been at least two, probably, unintended consequences related to this shift of costs within the system.

Increased fees and charges

The first is that, even though consumers are paying more in fees and charges they are also paying more when they use their cards because of surcharging and other cost pressures. What is more, another point acknowledged here, no discernible benefit has been passed on to consumers by merchants, who now pay lower merchant service fees. So consumers pay more for their cards and they pay more at the cash register. I would also observe that there is no evidence that consumers who use cash have received any benefit of reduced prices as a result of these changes.

Advantage given to American Express and Diners

The second unintended consequence is that, by failing to include American Express and Diners in the regulations, the RBA has achieved the perverse effect of driving up the use of products that it has identified as the most expensive in the system. According to the RBA's own data American Express has already achieved a 20 percent lift in its market share. That is over \$4.3 billion in extra revenue and, what's more, an extra \$44 million in merchant service fees, eroding some of benefit merchants have received from lower credit card costs.

As new American Express cards are issued, to take advantage of the regulatory opportunity (the recently released Qantas American Express card is one example), this situation will only be exacerbated.

We have heard the objections that have been raised about how hard it is to regulate the so-called three party schemes as opposed to four party schemes such as ours. We believe that the ultimate answer is, in fact, not to prescriptively regulate the three party schemes but to move to a more light handed, but competitively neutral system of regulation of all schemes.

However, in the meantime there is a good case for the RBA to conduct an inquiry into why it is that American Express merchant service fees are twice as high as the fees charged in relation to Visa and MasterCard. The relative difference between merchant service fees for the different schemes has widened as a result of these regulations. Asking the three party schemes to justify the difference would be an exercise worth undertaking. Shining a light on this issue might help bring prices down.

Honor all cards

The second major point I would make relates to the recent decision to remove the honor all cards rule. We believe that this is bad policy. It is bad because it gives merchants the right to discriminate and limit consumer choices. It is bad because the people who stand to be hurt are the four million Visa Debit cardholders, most of whom are middle to low income earners or the children of parents who do not want their kids to have access to a credit card, but recognize that they increasingly need cards to shop on line. [And it is bad because any harm suffered will fall disproportionately on the smaller financial institutions - credit unions and building societies.

Surcharging

The third point I want to make relates to surcharging. I have already said that the combination of the regulation of interchange fees and allowing surcharging results in a double hit for cardholders. It gets worse when merchants are allowed to surcharge however much they want with no reference to what it costs them to accept the card.

This occurs when the surcharge is a blended rate - where there is one fee that averages out the different costs of the schemes. In this case Visa cardholders effectively subsidize the use of American Express and Diners cards. It is worse in the case of those merchants who actually seek to make a profit by means of surcharging and are effectively gouging cardholders, some of whom may have no choice but to use their cards.

So, it is inappropriate to permit surcharging where interchange fees are strictly regulated. But even if surcharging were to be permitted merchants should not be able to do more than recover the cost to accept the card that is being used.

A way forward

Finally, can I suggest a way forward. We do not believe that the current approach is sustainable. We cannot imagine that anyone thinks that in three or five or ten years time the RBA should still be effectively fixing the charges that can apply in the payment system. If you like, there must be an exit strategy and the RBA should be asked to outline what it will be.

It is our hope that the RBA, in suggesting the possibility of Visa and MasterCard offering voluntary undertakings to comply with its proposed standard for debit interchange, is moving in this direction. However, at this stage this is only a small step as we are still being asked to comply with a too highly prescriptive standard.

A better approach is suggested in our submission, where we have recommended principles based approach to interchange regulation that is light handed and relies on transparency rather than prescription. This approach also has the virtue that it can be applied in a neutral manner that overcomes the competitive distortions that currently exist.

Furthermore, it is in line with the light handed approach suggested by the Wallis Report and endorsed in the recent Banks Report called *Rethinking Regulation*.

Importantly, the principles we recommend would recognize the need to encourage investment. The current regime does not do that and, as we have commented in our submission, this puts at risk the capacity of the payment system to deliver on the needs of the community and policy makers, especially in the area of protection of personal financial information and fraud.

Once again, thank you for this opportunity. I would be happy to answer any questions you may have.

All submissions

<http://www.aph.gov.au/house/committee/efpa/rba2005/subs.htm>

Full Visa submission

<http://www.aph.gov.au/house/committee/efpa/rba2005/subs/sub004.pdf>

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About Visa: Visa connects cardholders, merchants and financial institutions through the world's largest electronic payments network. Visa products allow buyers and sellers to conduct commerce with ease and confidence in both the physical and virtual worlds. As an association owned by 21,000 member financial institutions, Visa is committed to the sustained growth of electronic payment systems to support the needs of all stakeholders and to drive economic growth. For more information, visit www.corporate.visa.com.

About Visa Australia: Visa is the leading payment brand in Australia, with more than 12 million Visa-branded cards in the country. For the 12 months ended December 2005, A\$135 billion was spent at point of sale or withdrawn from ATMs in Australia using Visa cards. Visa Australia's internet address is www.visa.com.au.