



Credit Union
Industry Association

25 May 2006

Mr Stephen Boyd
Committee Secretary
Standing Committee on Economics, Finance and Public Administration
House of Representatives
Parliament House
CANBERRA ACT 2600
By e-mail: efpa.reps@aph.gov.au

Dear Mr Boyd

**Review of Reserve Bank and Payments System Board Annual Reports 2005:
CUIA Supplementary submission**

CUIA asks the Committee to take into account this supplementary submission when finalising its review of the RBA's payments reforms.

'Online' debit card

At last week's hearing, the RBA Assistant Governor, Dr Lowe, told the committee:

"If you want to buy tickets to a concert or the cricket or buy a plane ticket, and you go to a website to do that, you have typically got to type in your credit card number if you want to do it online. In some other countries you can essentially use your EFTPOS card to do that: you can go in on the website and it will take you back to your bank's website, where you type in your PIN number, and you can pay for that online transaction through a method other than credit cards. We do not really have that in the Australian marketplace."

In fact, a debit card with online purchasing functionality is available in the Australian market place. It is the Visa Debit card, held by 4 million Australians, including 1.2 million credit union members.

Dr Lowe went to say:

"...so 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. That is a big issue."

Visa Debit cardholders are not excluded from online transactions – or other 'credit card-only' transactions, such as transactions over the telephone, through the post or overseas. However, such transactions are likely to become more expensive for Visa Debit cardholders due to the RBA's punitive treatment of Visa Debit.

By slashing Visa Debit interchange fees and removing the Honour All Cards (HAC) rule, the RBA has made Visa Debit much less competitive against credit cards. Yet, Dr Lowe asserts without evidence that the impact will be marginal:

"...at the margin, building societies and credit unions [will] find it less attractive to issue Visa Debit. At the margin, a few more customers may use credit cards rather than Visa debit as a result of these reforms."

CUIA is extremely disappointed that the RBA has treated the risk of substitution from Visa Debit cards to credit cards, and the associated risk of increased personal debt, in such a perfunctory way.

Zero interchange fees

CUIA does not support the merchants' proposal to abolish interchange fees.

CUIA pragmatically supported reducing EFTPOS debit interchange fees to zero as a compromise in the voluntary reform context but our preferred position on all interchange fees is that they should be based on payment services provided by issuers to merchants.

This is the approach taken by the RBA in its credit card interchange fee standard (see REFORM OF CREDIT CARD SCHEMES IN AUSTRALIA I, A Consultation Document, December 2001; and, REFORM OF CREDIT CARD SCHEMES IN AUSTRALIA IV, Final Reforms and Regulation Impact Statement, August 2002).

By seeking zero interchange fees, merchants are asking cardholders to pay for services provided by card issuers that benefit merchants. CUIA believes merchants should pay for services that benefit merchants.

EFTPOS cash out

Dr Lowe says a strength of the current payments regulatory regime is that "*it allows a lot of consultation.*"

CUIA has taken a close and constant interest in EFTPOS interchange fee reform since the reform process started in 2000 but CUIA was not consulted at all about the RBA's carve out of 'cash out' transactions from its EFTPOS interchange fee standard.

Merchants have long argued that they provide banking services to cardholders and therefore should be compensated via interchange fees. The RBA has consistently disagreed. The RBA's February 2005 consultation document on EFTPOS and Visa Debit reform said the RBA "*gives little weight to this argument*":

"The EFTPOS transactions that do involve cash out in conjunction with a purchase provide considerable benefit to merchants, who provide the service voluntarily, because they see it as in their interest to do so. In addition to the associated sale of goods and services, merchants potentially save cash handling costs."

Now, the RBA has carved out these transactions from its final reform because of pressure from large supermarkets. Representatives of card issuers like credit unions were not consulted on the RBA's about-face. Like removal of the HAC rule for Visa Debit, this decision is anti-cardholder and anti-issuer.

The implications of the decision could be costly for issuers and may have a disproportionate impact on customers of ADIs without large branch or ATM networks.

Yours sincerely



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