

Banking fees

RBA/ACCC report: debit and credit card schemes in Australia — a study of interchange fees and access

On 10 October 2000 the Commission and the Reserve Bank of Australia issued a report on interchange fees and access arrangements in debit and credit card schemes. The report reveals excessive interchange fees and unjustified restrictions on access to the schemes.

Interchange fees are paid by financial institutions to one another for processing credit card and debit card transactions.

The report was of a year-long study into interchange fees during which data was collected from all financial institutions involved in ATM, credit card and debit card transactions, as well as from MasterCard, Visa and Bankcard. Detailed costs and revenue data were collected from a group of nine financial institutions that handle more than 95 per cent of debit and credit card transactions in Australia.

Credit card payments

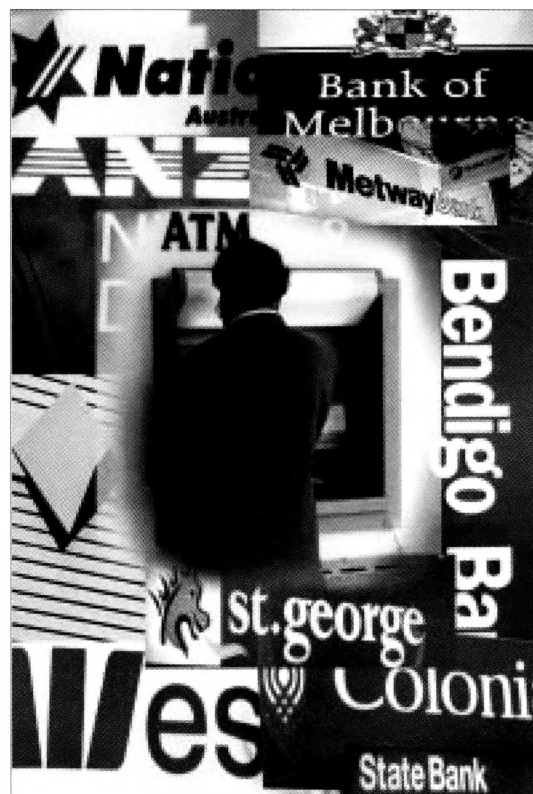
It was found that revenues of credit card issuers were 39 per cent, and those of credit card acquirers 64 per cent, above their costs.

The report calculated that if interchange fees for credit card transactions were calculated by a generally recognised, cost-based method they would be halved at least.

The report concluded that the current structure of credit card interchange fees leads to unnecessarily high costs in Australia, which are borne by consumers who do not use credit cards.

Debit card payments

Acquirers were found to earn revenues 23 per cent above costs for debit card payments. The report concluded that generally recognised, cost-based methods do not provide clear support for any interchange fees for debit card payments.



Photograph by Arthur Mostead.

ATM transactions

Interchange fees are more than twice the cost of providing the service. Cardholders using another institution's ATM therefore pay considerably more than the cost of the service.

The report also revealed that the structure of interchange arrangements protects Australia's major banks from competitive pressures that would ordinarily keep interchange fees in line with their costs.

New ATM providers tend to be relatively small institutions, have little bargaining power and are price-takers in interchange-fee negotiations.

Conclusion

Credit card scheme arrangements restrict scheme membership to deposit-taking institutions. This protects the major banks from competitive pressures from new entrants. Credit card acquiring is highly concentrated with the four major banks accounting for more than 90 per cent of the acquiring market. The report concludes that:

- these membership restrictions cannot be justified;
- membership restrictions limiting credit card issuing to deposit-taking institutions need to be reviewed; and
- competitive pressures should be strong enough to ensure that the interchange fee regime does not become a source of excess profits.

Review of bank interchange fees

The Commission told banks and credit card schemes in March 2000 it believed their process for setting interchange fees breached the Trade Practices Act. The Commission then started to negotiate with the banks and credit card schemes to encourage a review of the schemes' rules and methodology for setting interchange fees, so it could consider providing an authorisation for the conduct on public benefit grounds. The Commission noted that it is not opposed to a credit card interchange system in principle, however, it considers that aspects of the current scheme are unlawful and cannot continue without authorisation.

Although the banks had offered to conduct a limited review of interchange, they were not initially prepared to agree to a review of all issues that, in the Commission's view, affect the costs of participating in credit card schemes and interchange fees. The Commission then instituted proceedings against the National Australia Bank on 4 September 2000.

After 4 September the Commonwealth Bank, ANZ, Westpac, BankWest, the Bank of Queensland and St George approached the Commission and proposed a review that conformed with the Commission's previous proposals. NAB joined the review in October.

The review, which is currently being conducted by the banks, is examining:

- methods for setting interchange fees that are cost-based and take account of the banks' ability to recover these costs from various other sources;
- a process for setting interchange fees that is transparent and provides for regular review; and
- whether existing membership rules prevent new entrants from joining credit card schemes in a way that is unjustified.

The Commission commented that it will not take court action against the six banks while the review is proceeding satisfactorily.

The Commission continues to believe that authorisation would ultimately be the most appropriate and effective way to accommodate any public benefit if, at the conclusion of the review, the banks adopt arrangements that may still breach the Act.

Proceedings in the case with the National Australia Bank are continuing.