Review of credit card fees

A review is currently examining the process by which banks set interchange fees. The review is being conducted by Frontier Economics on behalf of the Commonwealth Bank, NAB, ANZ, Westpac, BankWest, the Bank of Queensland and St George.

The review follows allegations by the ACCC in March 2000 that the process for setting interchange fees was a breach of the price fixing provisions of the Trade Practices Act. In the ACCC's view, the current arrangements result in higher costs to merchants and higher costs to consumers, with banks charging interchange fees of approximately $600 million a year.

In particular, the review is examining:

- a methodology for setting interchange fees that is cost-based and takes into account the ability of banks 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 ACCC believes that an authorised joint system would ultimately be the most appropriate way to benefit Australian consumers if the banks adopt arrangements that may still breach the Act.

The ACCC also instituted proceedings against the National Australia Bank on 4 September 2000.

In its proceedings against the National Australia Bank, the ACCC has sought court orders including:

- a declaration that NAB had breached the relevant provisions of the Trade Practices Act;
- pecuniary penalties;
- an injunction restraining NAB from engaging in similar conduct in the future;
- an order requiring NAB to make fair and just restitution for the benefits derived from the alleged breach; and
- findings of fact.

The ACCC's investigation has been conducted separately from the joint study of interchange fees and access in debit and credit card schemes which was released in October 2000 by the ACCC and the Reserve Bank of Australia.

Background

A typical credit card transaction involves four parties:

- the card holder;
- the card holder's bank (known as the card issuer);
- the merchant; and
- the merchant's bank (known as the merchant acquirer).

The steps involved in a typical transaction can be briefly described as follows. The cardholder initiates a credit card transaction by making a purchase from the merchant with his or her credit card. The merchant transmits the details of this transaction to its bank (the merchant acquirer) who reimburses the merchant.

The merchant acquirer transmits the details of the transaction to the cardholder's bank (the card issuer). The card issuer then reimburses the merchant acquirer, bills the cardholder and debits the card holder's account (i.e. its customer's account). The card issuer guarantees payment of the debt to the merchant acquirer and has the burden of recovering the debt from the cardholder.

'Interchange' describes the transaction between the merchant acquirer bank and the card issuer bank. This is the process by which the merchant acquirer transmits the details of the transaction to the card issuer, who then processes these details and reimburses the merchant acquirer. The 'interchange fee' is the fee charged by the card issuer to the merchant acquirer for undertaking this process. The interchange fee comprises a significant part of the merchant service fees charged by merchant acquirers to merchants.

Each of the major banks acts as both card issuers and merchant acquirers. This means that they all pay and receive interchange fees. However, in relation to any single credit card transaction, one bank will be the card issuer while the another will be the merchant acquirer. The exception is where both the cardholder and the merchant are customers of the one bank. The relevant bank processes such transactions in house and a nominal interchange fee is imposed on the transaction.