

The background of the slide is a collage of various Australian banknotes, including the 10, 20, and 50 dollar bills, featuring portraits of historical figures and the Australian coat of arms. The text is overlaid on this collage in a yellow, sans-serif font.

Payments Pricing: Who Bears The Costs? 2009 Payments Conference

Panel on Examples of Intervention: **Australia**

John Simon
Reserve Bank of Australia

Chicago, 14-15 May, 2009



Three questions

- i. When should public authorities intervene in payment markets?
- ii. What are the costs and benefits of your regulations on pricing of payment instruments?
- iii. How do you balance private sector incentives to innovate with regulating payment services to improve consumer and merchant welfare?



Overview

1. Australian Reforms

- i. When should public authorities intervene in payment markets?*
- ii. What are the costs and benefits of your regulations on pricing of payment instruments?*

2. Encouraging Innovation in Australia

- i. When should public authorities intervene in payment markets?*
- iii. How do you balance private sector incentives to innovate with regulating payment services to improve consumer and merchant welfare?*



Australian Reforms

When should public authorities intervene?

a) When current structure is detrimental

- Violates enumerated list of practices (competition law/black letter)
- Analysis finds detriments (principles based)

b) When things could be better



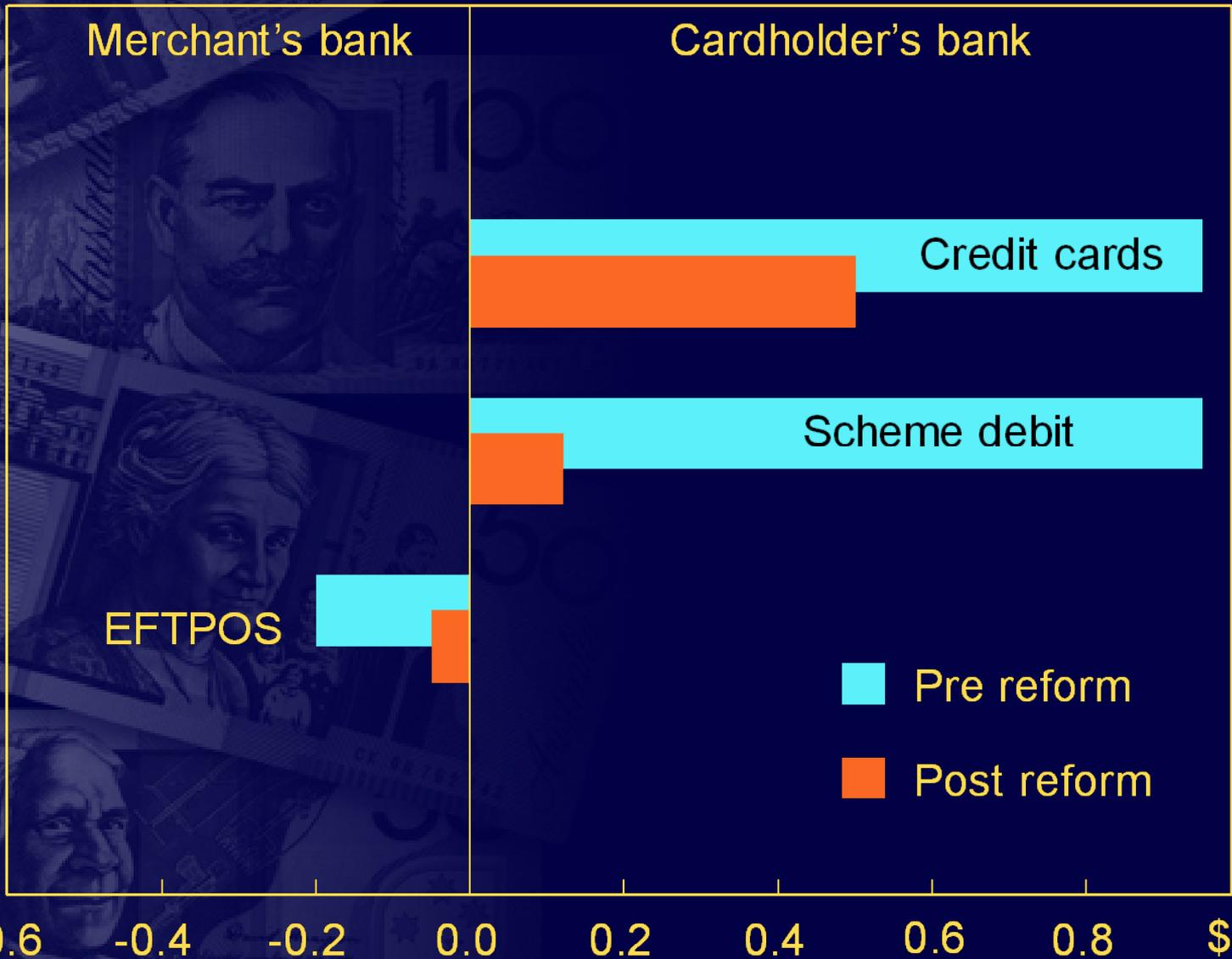
Australian Reforms

- Prohibited no-surcharge rules
- Narrowed interchange fee differentials
- Increased access
- Introduced in 2002
- Review conducted in 2007-08



Interchange Fees on a \$100 Payment

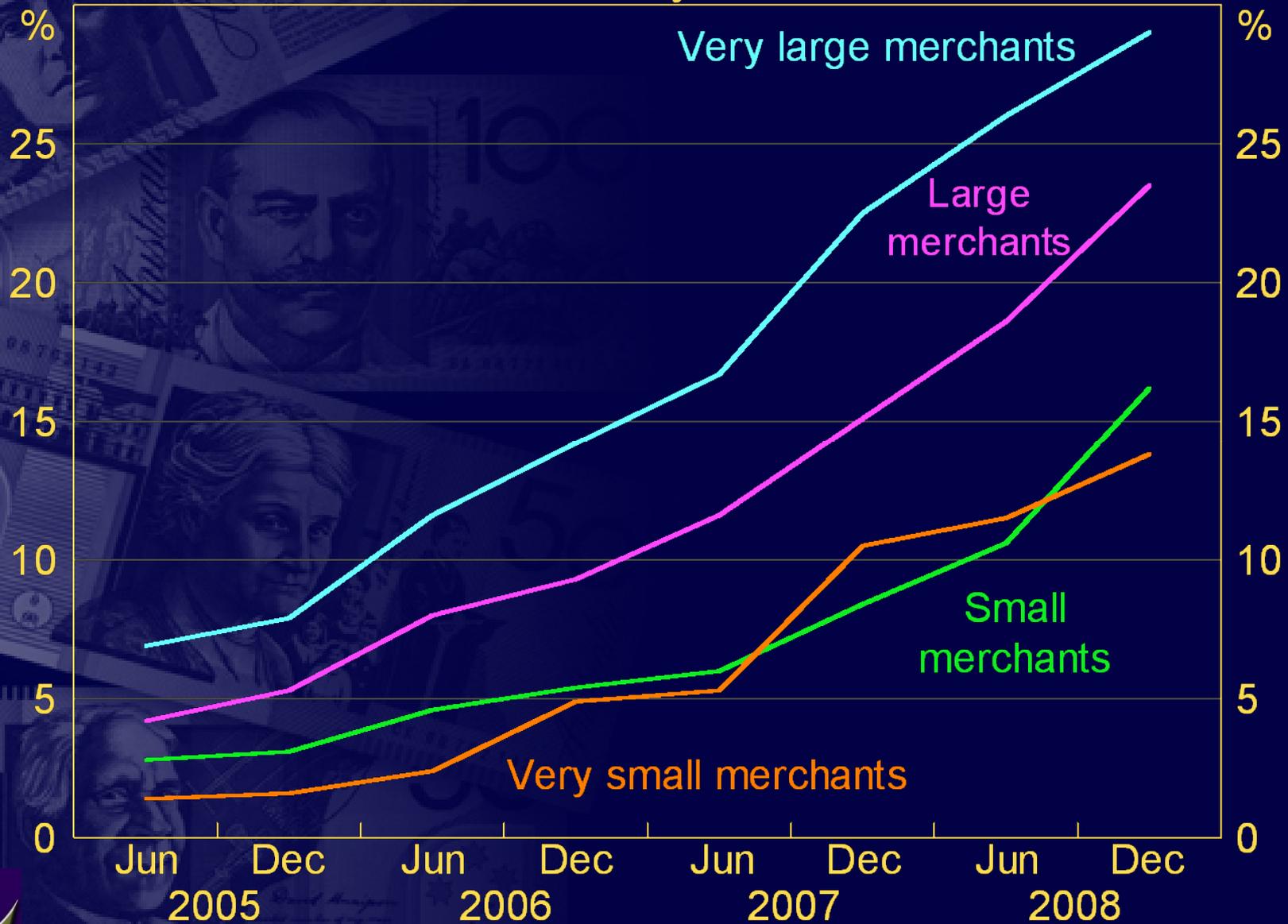
Excluding GST



Source: RBA

Merchants Surcharging Credit Cards

Per cent of surveyed merchants



Source: East & Partners Pty Ltd

Australian Reforms

- Review conclusions
 - Reforms have improved social welfare
 - Price signals are more efficient
 - No case to relax access improvements or prohibition on no-surcharge rules
 - Possibility for evolution of regulatory framework exists

(See “Reform of Australia’s Payments System: Conclusions of the 2007/08 Review” on the RBA’s website for details)



Australian Reforms

- Direct regulation of interchange fees might be replaced with:
 - Enhanced competition from domestic debit
 - Further changes to honour all cards
 - Greater transparency on feesor
 - Commitment from schemes to cap IFs
 - Enhanced competition from domestic debit
 - Greater transparency on fees



Australian Reforms

- Objective remains the same, alternative means are being considered
- The Bank has not concluded that its reforms were a failure and is not reversing course (despite what you may have heard)

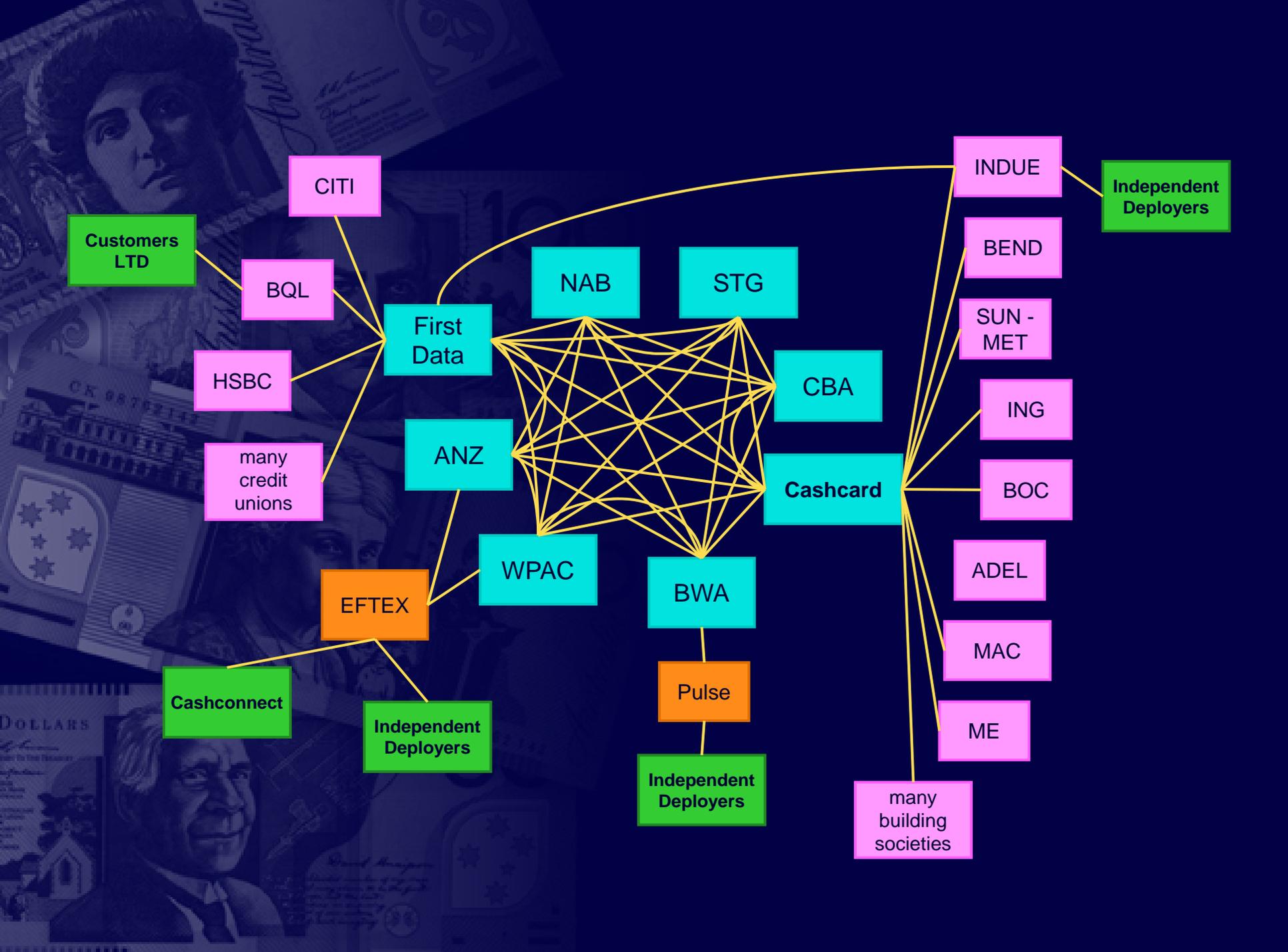


Encouraging Innovation

- Many payment systems in Australia are bilaterally-based
 - No overarching governance structure
 - Change usually requires unanimity
 - History of no change
 - Web of connections makes technical and business relationships complicated

⇒ Innovation impeded





Encouraging Innovation

- Payment systems require co-operation to work — a network industry
- Network industries face co-ordination problems — competitive forces may lead to sub-optimal co-operation
- Role for a co-ordinating body is indicated, could be public or private



Encouraging Innovation

- No individual participant has the incentive or ability to reform the structure
- Reserve Bank actively considering how it might encourage structural change to:
 - Increase access
 - Increase competition
 - Increase innovation



Encouraging Innovation

Three approaches:

1. Negotiate voluntary targets
2. Industry solution with threat of regulation
3. Explicit regulation
 - Technical standards
 - Outcomes



Encouraging Innovation

- Objectives are always the same: competition, efficiency, safety
- Behaviour of regulator is dependent upon behaviour of industry
- Stay tuned

