

Debit Card Fast Facts: Australia Reforms Have Been Good for Consumers

Fact #10: Consumers in Australia benefited from debit card fee reforms.

Decade-old reforms in Australia limited debit card transactions to 12 cents and created a safe harbor/cap structure for EFTPOS (similar to our PIN debit system) transactions of 4 to 5 cents. The reforms on credit require the weighted average interchange fees not to exceed 0.50 % of the value of the transaction, and abolish certain prohibitive network rules.¹ Because of competition, however, overall interchange is actually paid to merchants on EFTPOS debit transactions and issuers do not receive any debit interchange revenue.

Payments experts in Australia recently submitted a report to the Federal Reserve making the following findings about the reforms in that country:

- Since the reforms of debit interchange, payment by debit has grown faster in Australia than payment by credit.
- Over the past decade, debit card transactions have increased by 290% and spend on debit cards by 380%.
- There has been stronger growth in new debit accounts since the reforms than there was prior to the reforms.
- Although there is no regular data published on cardholder fees for debit cards, it appears they have declined steadily over the past decade.
- The fact that issuers receive no interchange income from debit cards has not led to any attempt to generate additional income from cardholder fees since the debit interchange reforms were implemented.
- Card issuer profitability has not been harmed by the reforms. Issuers have reduced costs and increased efficiency.²

In their 2005 payments review, the Reserve Bank of Australia (RBA) recognized how interchange fee costs flow through to all consumers in the higher prices of goods and services: “In effect, the distorted price signals to the cardholder, which have encouraged the use of the more expensive payment options, have come at the expense of higher merchant costs. In turn, these higher costs flow through into higher prices for goods and services. Accordingly, the Bank’s opinion is that bringing the relative prices and costs for these payment systems into closer alignment would promote the efficiency of the overall system. Encouraging more efficient payment choices by cardholders should reduce merchants’ overall costs, and thus put downward pressure on the overall level of prices for goods and services.”³

In a 2008 preliminary review of the reforms, the Reserve Bank of Australia (RBA) concluded that despite difficulties of measurement, cost savings from interchange fee reforms “have been passed on to consumers in the form of lower prices for goods and services than would have otherwise been the case. Despite difficulties of measurement, “the Board’s judgment remains that the bulk of these savings have been, or will eventually be, passed through into savings to consumers . . . The Bank’s estimate is that over the past year, these cost savings have amounted to around \$1.1 billion.”⁴ Later that year, in a June 2008 address to the Visa Forum, Philip Lowe, Assistant RBA Governor for Financial Systems, emphasized the

¹ <http://www.rba.gov.au/payments-system/reforms/review-card-reforms/pdf/review-0708-pre-conclusions.pdf>. Pg. 4

² http://www.federalreserve.gov/SECRS/2011/March/20110303/R-1404/R-1404_022211_67474_559255029499_1.pdf pg. 4

³ <http://www.rba.gov.au/payments-system/reforms/debit-card-systems/consult-doc-feb05/consult-doc-feb05.pdf>. pg. 12.

⁴ <http://www.rba.gov.au/payments-system/reforms/review-card-reforms/pdf/review-0708-pre-conclusions.pdf>. Pgs. 22 23.

benefits of reforms to Australian consumers: “The competitive environment has been improved. Merchants have more choice. The veil of secrecy on interchange fees has been lifted. Access has been liberalised. And the price signals to consumers have been improved.”⁵

The RBA issued a final review of the impact of reforms last year where they examined three options: 1) Weaken the reforms; 2) Maintain the status quo; 3) Strengthen the reforms. Ultimately, they decided to maintain the status quo because of concerns over lack of competition in the marketplace.⁶

Lastly, it’s important to note the debit card market in Australia continues to function well. “The trends in Australia are consistent with those overseas. Electronic payment instruments, in particular payment cards, continue to increase in importance while cheque use is in decline throughout the world.”⁷ The RBA also reports that during the 2008/2009 market turbulence, the Australian payments system continued to function well.⁸

⁵ Lowe, Philip. Reserve Bank of Australia Assistant Governor (Financial System). “The Preliminary Conclusions of the Payments System Review.” *Address to the Visa Forum 2008*. Queensland. June 4 2008. <http://www.rba.gov.au/speeches/2008/sp-ag-040608.html>

⁶ <http://www.rba.gov.au/publications/annual-reports/psb/2009/html/reg-payments.html>

⁷ Payments System Board 2010 Annual Report. <http://www.rba.gov.au/publications/annual-reports/psb/2010/pdf/2010-psb-ann-report.pdf>. pg. 7

⁸ <http://www.rba.gov.au/publications/annual-reports/psb/2009/html/performance.html>