Credit Card Reforms

Retail Banking Services

Transactions and Consumer Financing

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The designation of credit cards under the Payment Systems Act (1999) has been the most significant change in our market since the launch of credit cards in 1974

RBA reforms:

- A specific methodology for setting of interchange fees for open card schemes, resulting in a reduction of interchange fees
- Removal of the “no surcharge rule” for credit cards, allowing merchants to charge an additional amount for purchases by credit card
- Allowing greater participation in open schemes

The impact on CBA:

- A reduction in “static revenue” (mitigated through pricing interventions)
- Potentially greater competition
- Potential for other payment methods to become more attractive to customers

Banks have externalised their responses to the reforms, but customers & merchants have been slower to respond

Banking Industry Responses

- Dilution of loyalty points & capping
- Increase in cardholder fees
- Increased card interest rates
- Greater product segmentation
- Increased offers e.g. honeymoon offers, balance transfer, etc

Merchant Reactions

- Coles Myer issues Source Card
- Little evidence of surcharging
- Continued growth in number of acceptance points

Customer Reactions

- No reduction in use of credit cards
- Proliferation rather than a consolidation of credit cards per customer
- Customers more actively seeking the "right" card (High transactors seeking best rewards programmes/ revolvers seeking cheaper rates)
- No discernible increase in debit transaction volumes

Impact of new entrants

- Amex and Diners have been increasingly competitive in the loyalty arena with 2:1 and 1:1 guaranteed points offers, in addition to Balance Transfer and Annual Fee waiver offers - supported by "non-designated MSFs"
- Other majors have moved to cement companion card offers (Amex & Diners) to maintain/enhance their Qantas Frequent Flyer point offering.
  - Significantly heightened risk of regulatory intervention (ie not sustainable)
  - Fragmentation of the customer servicing experience
- Virgin card numbers are reportedly strong, however, the card is yet to move to the front of the wallet
- Coles Myer Source card will benefit from existing migration of store card customers, but future growth prospects are not apparent

ATM & EFTPOS Reform

ATM Reform

- A review of the bilateral ATM interchange arrangements has been completed and a new direct charging model proposed.
- Under this model the ATM provider directly charges the customer for using its ATM. The card issuer may also charge a customer to recover its costs.
- The ATM reforms are being managed by a body of representatives from industry participants (ATM Industry Steering Group - AISG), chaired by the CBA, which reports progress and outcomes to the RBA.
- The RBA is keen to dismantle interchange, provide transparency and create greater competition. Also of interest to the RBA is access to the market for new players.
- The new charging model is likely to take another 6 months to develop and approve (designation is a possibility), with implementation over the ensuing 18 months.

EFTPOS Reform

- Debit Card interchange currently sees the issuer paying the acquirer ~ 20 cents per transaction, with large merchants typically receiving a rebate from the acquirer
- CBA was a party to the Application which saw the ACCC determine a zero interchange fee
- Retailers have mounted an appeal through the Australian Competition Tribunal

Credit Card Interchange flows

Example