

Payment systems are different:
Shouldn't their regulation be too?

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Overview

- Payment systems are different
- One size may not fit all
- Regulation in Australia has promoted competition and efficiency



Payment systems are different

- Cooperation within a payment system can enhance efficiency
- Competition between payment systems is distorted
- Competition for merchant business is distorted



Cooperation can enhance efficiency

- Technical cooperation is necessary
- The bilateral alternative can be worse
- Centralisation or use of interchange fees may *potentially* enhance efficiency



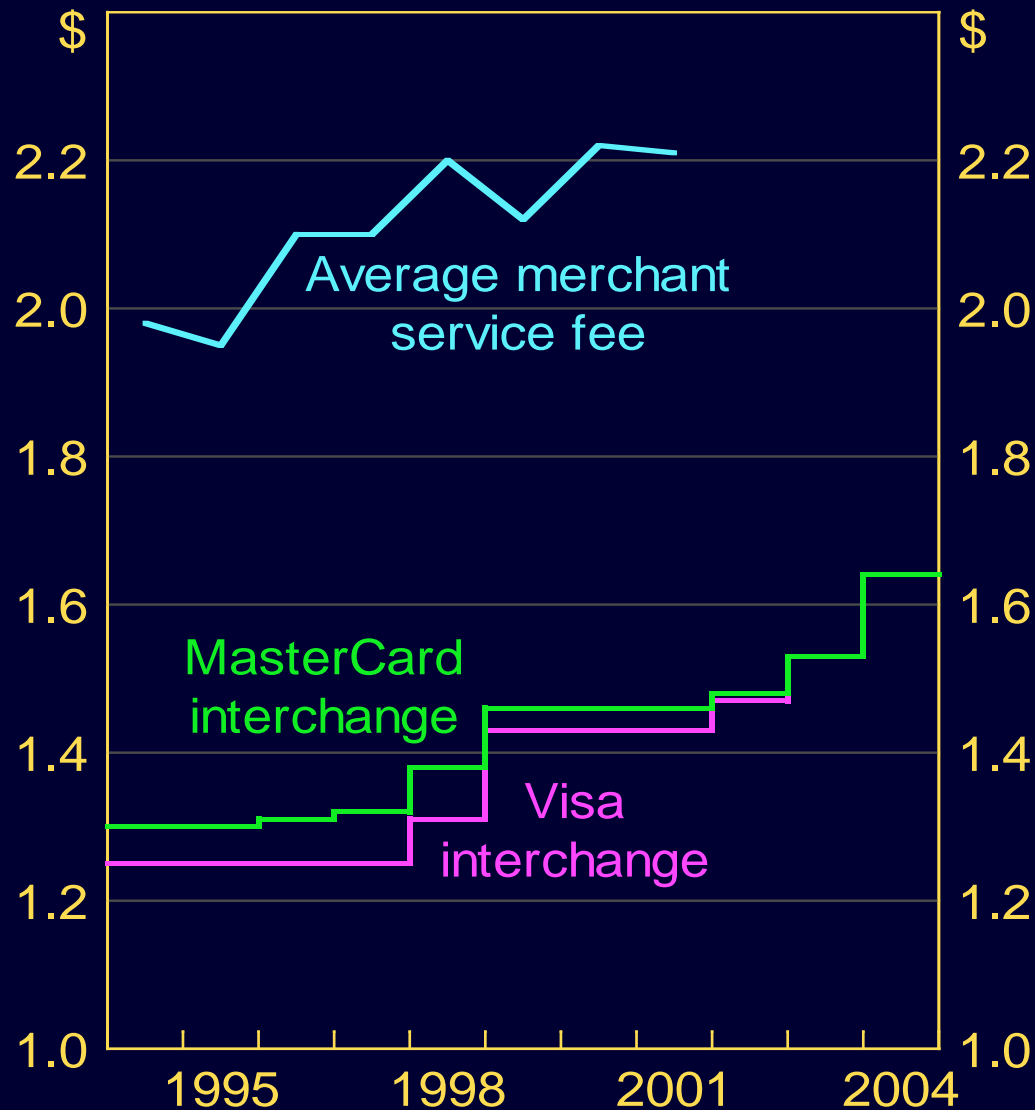
...but competition can distort prices

- In *practice* interchange fees have not been set in a way that enhances efficiency
- Schemes often compete by raising prices



US Credit Card Fees

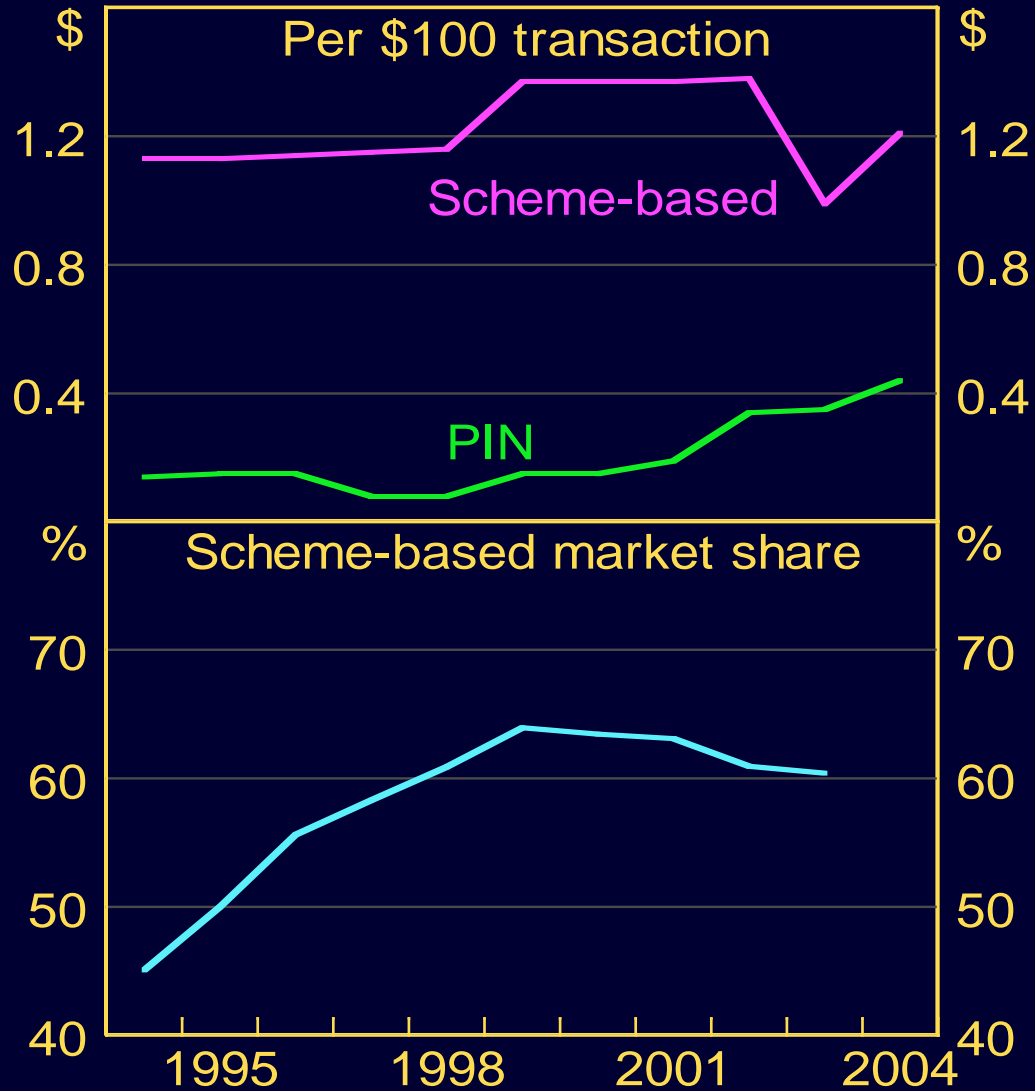
Per \$100 transaction



Sources: MasterCard; Visa



US Debit Card Interchange Fees

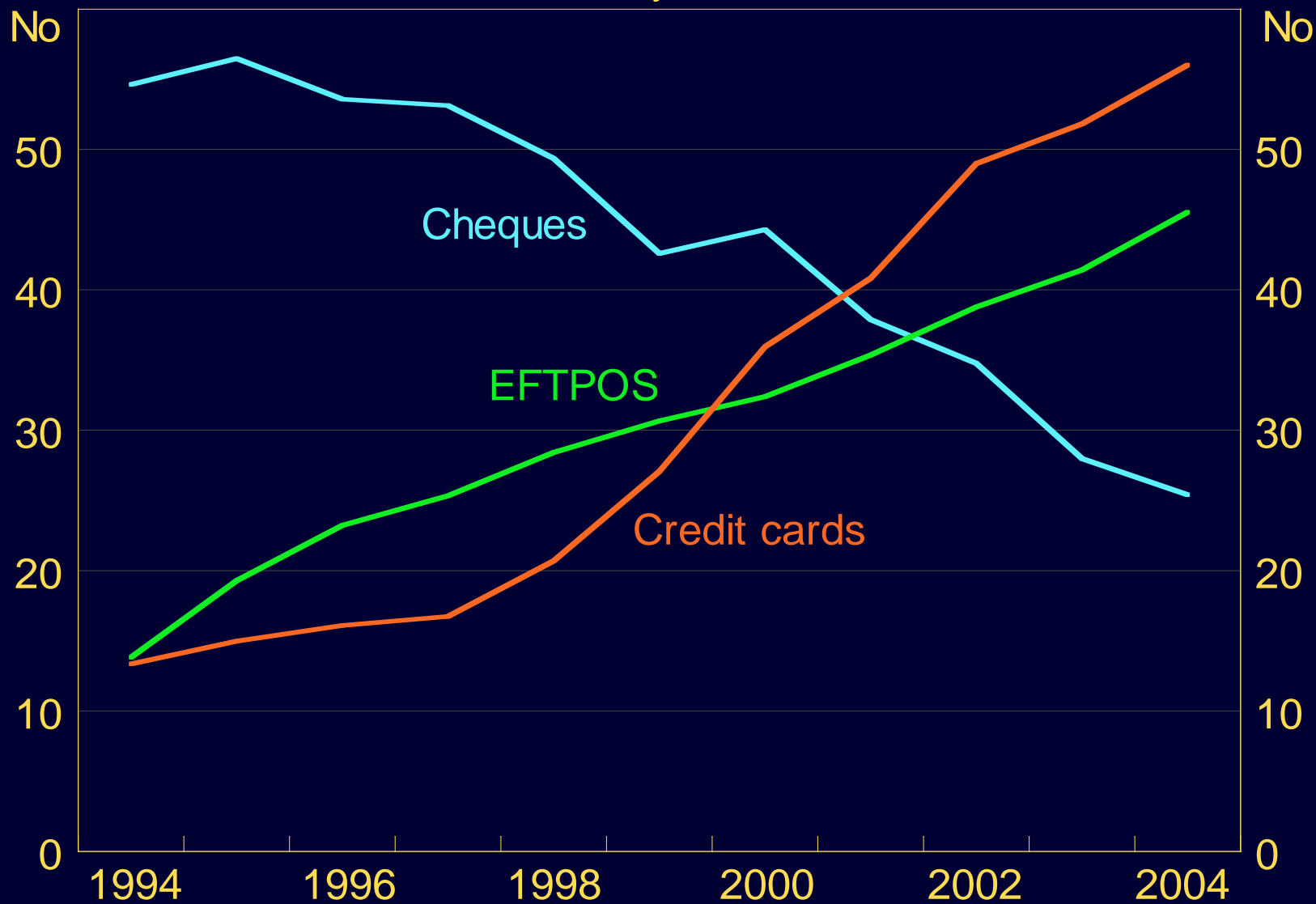


Sources: MasterCard; Nilson Report; Visa



Payments per Capita

Per year



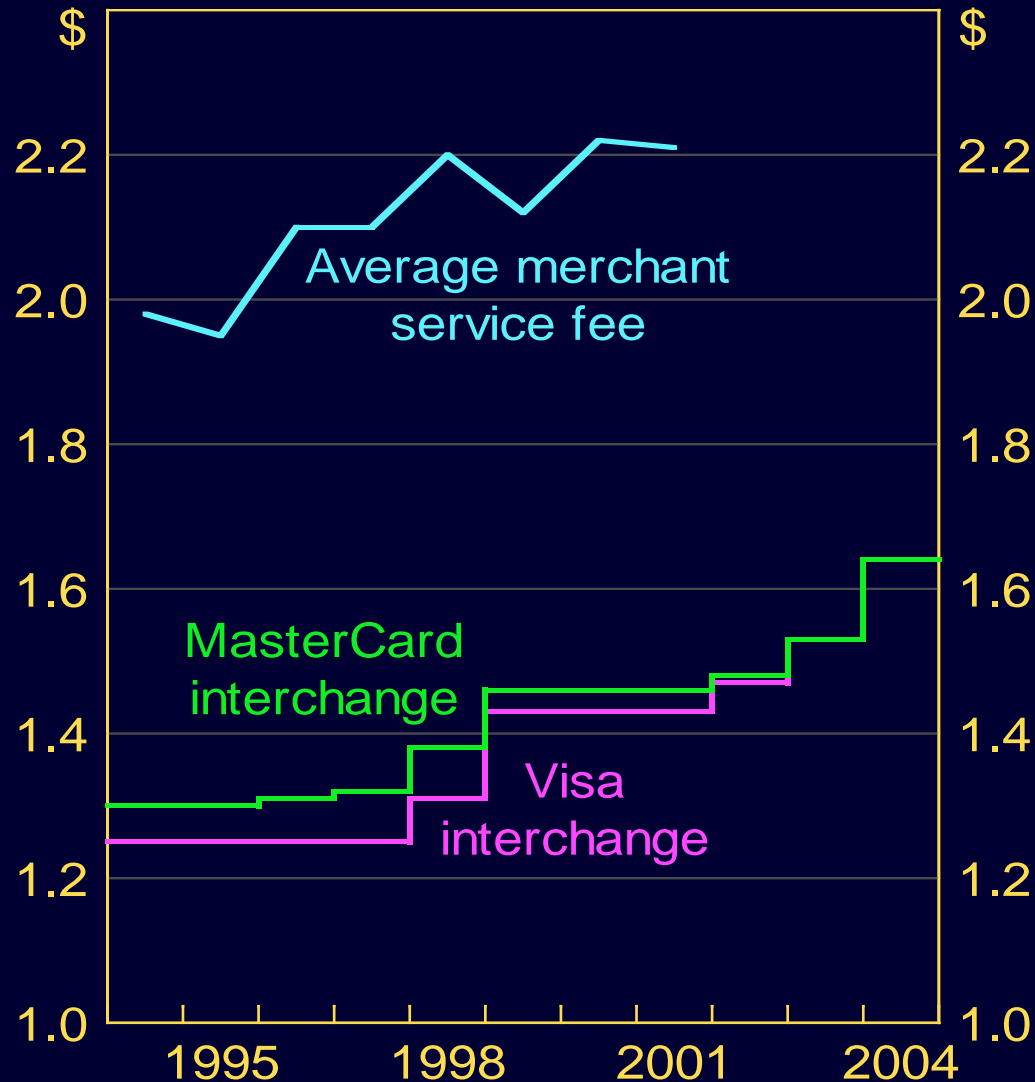
Merchants have low resistance

- Merchants are caught in a Prisoner's Dilemma
- Many restrictions are imposed on merchants by schemes that impair the price mechanism
- Schemes can raise fees to merchants with little apparent consequence



US Credit Card Fees

Per \$100 transaction



Sources: MasterCard; Visa



Regulatory response

- Two alternatives
 - Generic antitrust regulation
 - Payments system specific regulation
- One size may not fit all



Specific regulation – the PSRA

- Explicit mandate to promote:
 - Competition
 - Efficiency
 - Stability



Antitrust regulation

- Focused on actions rather than outcomes
- Contains *per se* restrictions that are rooted in simpler markets
- Requires breaches of laws to trigger action



Antitrust regulation

- Antitrust authorities can still act
 - Outcomes may differ
 - May take longer



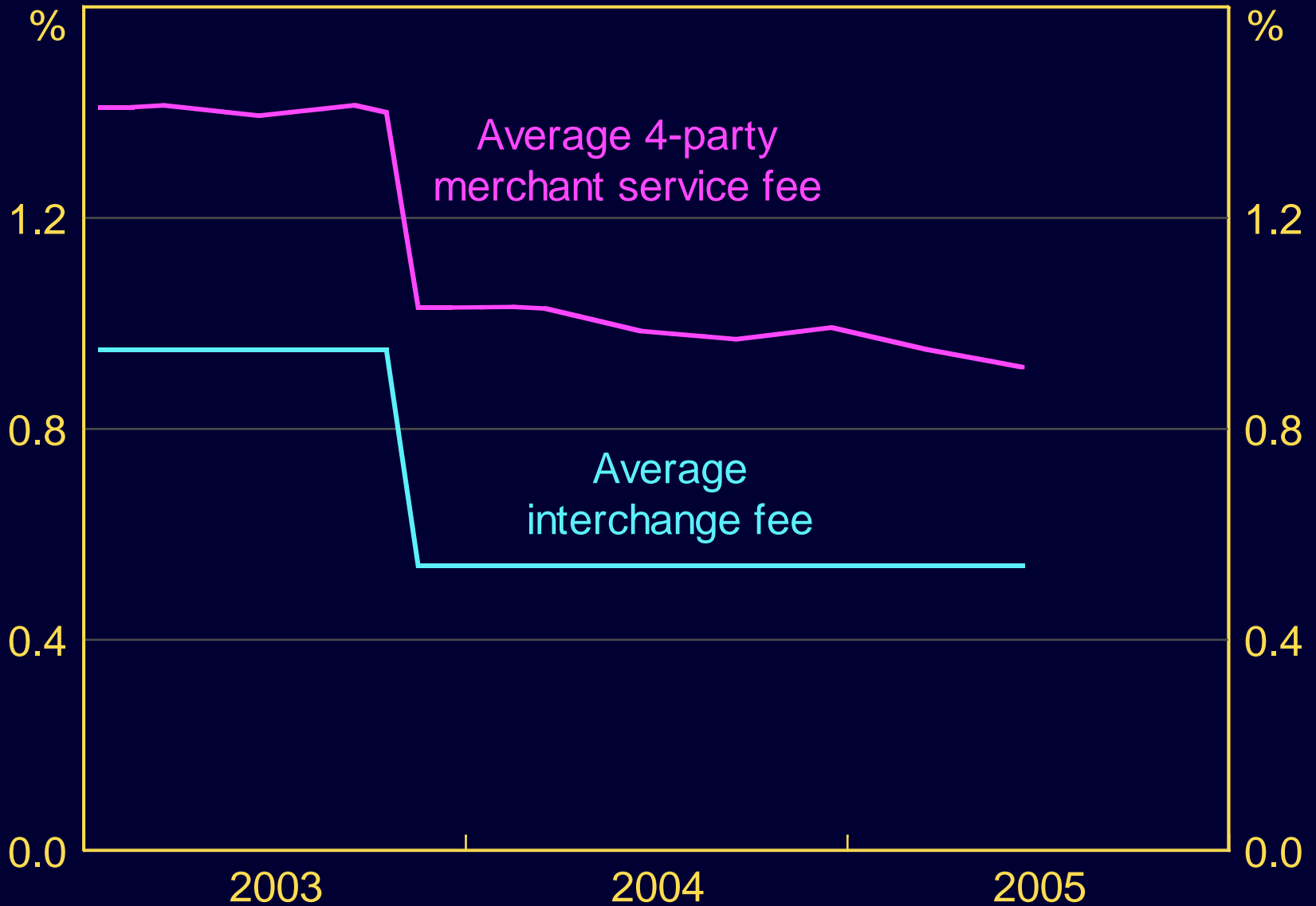
The Australian Experience

- Interchange fee regulation
- Removal of no surcharge rules
- Removal of access restrictions



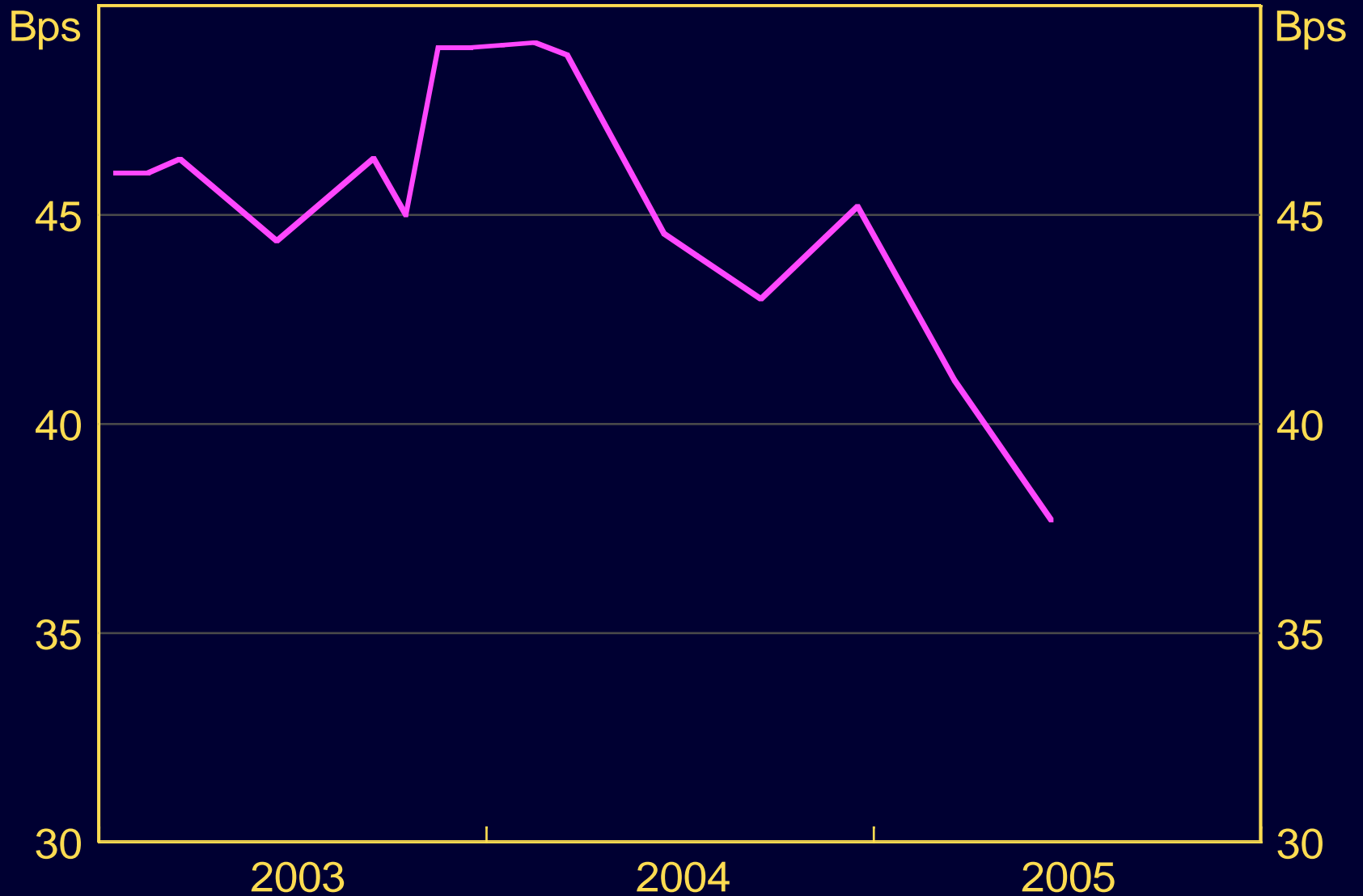
Credit Card Fees

Per cent of transaction value



Credit Card Fees

Spread between interchange and merchant service fee



Credit Card Rewards

	Average spending required for \$100 voucher (\$)	Benefit cardholder as a proportion of spending (b.p.)
2003	12 400	81
2004	14 400	69
2005	15 100	66



Average Merchant Service Fee

Per cent of transaction value



Market Share

American Express and Diners Club



Benefits

- Merchant savings of \$580 million last year
- Greater competition for revolvers with low rate products
- Better price signals



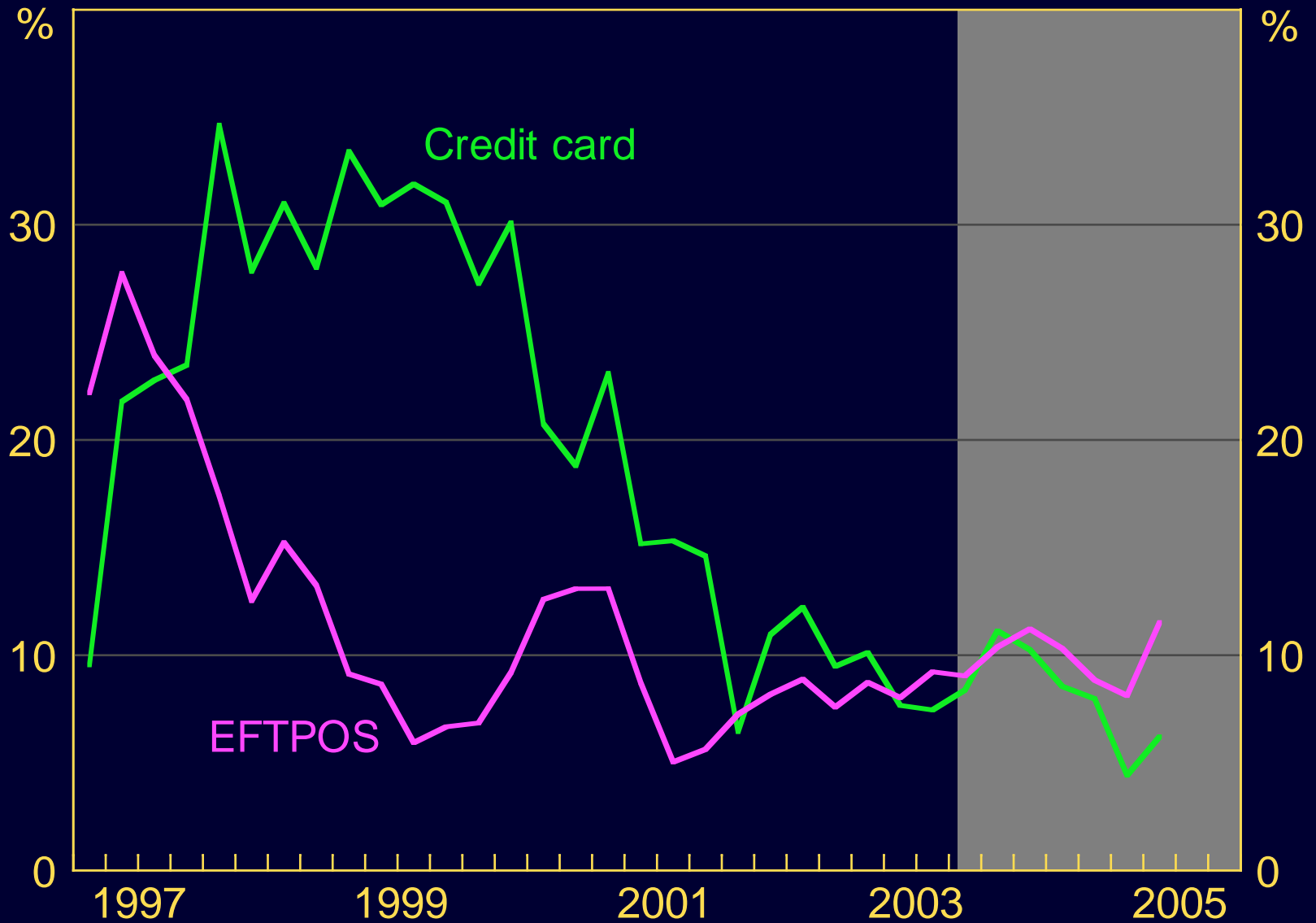
Low Rate Products

	Low rate products	Credit card products	Proportion of low rate products	Number of top-ten issuers that offer a low rate product
2003	17	172	9.9%	3
2004	25	198	12.6%	6
2005	35	256	13.7%	8



Growth of Credit and Debit Card Transactions

Value of transactions



Conclusion

- Payment systems are different
- Australian regulatory approach is different
- Consumers and merchants are better off
- Doesn't need to be done the Australian way, but it should be done

