

Key Findings

Study of Regulatory Intervention in Australia

In an exhaustive report submitted to the Reserve Bank of Australia (RBA) on April 28, 2008,¹ a group of economists in the London office of CRA International has concluded that the RBA's regulatory intervention in the payment cards industry in Australia beginning in 2003 has harmed consumers and should be withdrawn.

The RBA's Regulatory Action

Beginning in 2003, the RBA implemented a series of regulations affecting MasterCard and Visa card schemes. Most importantly, the RBA required MasterCard and Visa to reduce interchange fees by about 50%, and to eliminate their no-surcharge rules.

Effects of the RBA's Intervention

According to the new report by these CRA economists, the RBA's intervention has harmed consumers. In fact, the regulations have had harmful consequences that the RBA neither intended nor foresaw.

Below are the key specific findings of the report:

- **Mandated reductions in interchange fees have clearly harmed consumers in Australia by raising cardholder fees and reducing card benefits.**

On average, the annual fees paid by consumers for standard four-party credit cards increased by 22% between 2001 and 2004, while annual fees for rewards cards increased by 47%-77%. As a result, cardholders in Australia are now paying approximately AU\$480 million more in additional fees for credit cards each year. Meanwhile, the value of reward points for four-party cards has declined by approximately 23%. (Report pp. 3, 13-15).

- **There is no evidence that these "undeniable losses to consumers" (Report p. 13) have been offset by reductions in retail prices and/or improved quality of service.**

"As expected, the reductions in interchange fees have led to reductions in merchant service charges," but "Merchants however have not presented any empirical evidence documenting the extent to which reductions in merchant service charges have been passed through to consumers, and neither has the RBA or anyone else." (Report pp. 3, 24-25)

¹ Robert Stillman, William Bishop, Kyla Malcolm, and Nicole Hildebrandt, "Regulatory intervention in the payment card industry by the Reserve Bank of Australia: Analysis of the Evidence" (28 April 2008). The full text of this Report is available at http://www.crai.com/ecp/assets/Regulatory_Intervention.pdf. A cover letter written by the authors and summarizing their conclusions is available at: [http://www.crai.com/ecp/assets/Stillman_et_al_cover_letter_\(28_Apr_2008\).pdf](http://www.crai.com/ecp/assets/Stillman_et_al_cover_letter_(28_Apr_2008).pdf)

➤ **Merchants have imposed discriminatory surcharges on payment card transactions.**

“[M]erchants have imposed surcharges to a greater extent than is justified by their costs. On average, surcharges on users of MasterCard and Visa cards have exceeded average merchant service charges.” (Report pp. 3, 27)

➤ **The RBA has reduced incentives to innovate and may have harmed competition.**

“The reduction in the profitability of issuing has reduced incentives for new entrants to enter the industry, and has made it more difficult for smaller issuers to compete. ... [It] has also reduced the incentive of issuers to invest in new types of four-party cards and in other payment system innovations.” (Report pp. 12, 13)

➤ **The RBA’s case for intervening was and remains flawed. These findings should cause the RBA to reconsider its intervention, and give pause to regulators in other countries.**

“The findings of this study “provide no evidence that the payment system in Australia is now operating more efficiently or that consumers have derived any net benefits from the intervention.” (Report pp. 58-59)



