



MasterCard and Visa negotiate undertaking with PSB

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The Payments System Board may be on the verge of dropping most, and perhaps all, of its regulations governing credit cards and scheme debit.

MasterCard Worldwide and Visa International are believed to be negotiating enforceable undertakings with the PSB.

The PSB meets tomorrow and is likely to finalise its long running review of its extensive regulation of the payments system in Australia.

The MasterCard and Visa undertakings are likely to replicate, in substance, the existing standards, first introduced by the PSB in 2003 and updated and extended (for instance, to take in scheme debit) in recent years.

The effect (and intent) of the regulations was to reduce interchange in credit cards by forcing the payment schemes to undertake transparent cost studies to justify these fees, and that in turn could only consider fees defined by the RBA.

In late 2003 merchant service fees (which reflect interchange fees paid between banks) fell from around 1.45 per cent to around 1.0 per cent. Subsequent competition between banks (and the sole new entrant to the market, Tyro) for merchants cut the fees by another ten basis points or so.

Related rules that eliminated restrictions on merchants passing on merchant fees (and more) to their customers in the form of surcharges helped steer about one per cent of all credit card payments toward MasterCard and Visa (which charge lower merchant fees) and away from American Express and Diners Club. The most recent RBA estimates put the market share of the two dominant credit card schemes at 89 per cent by number and 84 per cent by value.

Were the PSB to dispense with its regulations around credit card schemes the regulator (a subsidiary board with the Reserve Bank of Australia) might be able to claim that its intervention – heavily contested by the payments brands at the time – was an effective piece of public policy and that it stepped back as the industry changed.

A less favourable view would note that the voluntary undertakings proposed by MasterCard and Visa so closely replicate the regulations that the freedom to act of the payments networks and their client banks is as constrained as ever.

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