

## Self-serving card sharks

*Timid regulators in Australia should keep an eye on events in the United States where a grassroots reaction is underway aimed at curbing the banks' insatiable appetite for fee revenue from transactions*

At a time when bankers worldwide could be expected to feel repentant in the wake of the crisis attending their collective greed and irresponsibility, their arrogance is irrepressible.

News media in the United States have been publicising opinion pieces, some actually commissioned by banks, which are unreasonably biased in favour of the predatory pricing of card-payment services banks.

More generally, a noxious card game is unfolding internationally that is contrary to the best interests of national communities. That no national regulator has yet called the bluff of banks and card-scheme promoters, suggests that bank negotiators have a potentially disruptive card up their sleeve. Let's have it out.

Retail payments facilities are priced with such complexity that customers simply trust the banking regulators to get it right. This faith is often misplaced, however, as banking regulators are renowned for protecting banks' soft revenue flows, especially in retail where consumers fall prey to deceptive marketing strategies.

An openly contentious element of using credit cards is the imposition of an interchange fee on purchase transactions. Paid to the card issuer, this fee is collected from merchants but passed onto consumers, usually as higher prices.

The practice, of long standing with credit card schemes, is intruding into both linked debit card schemes and the embryonic, fast-payment options intended to displace small cash transactions.

Overlaying this is the displacement of national debit-card schemes that do not levy interchange fees, by Visa and MasterCard operations that do. The unwelcome intrusion is doubly so when these intruders are also substituting credit-card style fees, taking a percentage of each card purchase, for an otherwise small fixed-fee, if indeed any interchange fee applies to Eftpos transactions in independent schemes.

Banks milking card payments have recently attracted a grass-roots reaction in North America where retailers and their customers are petitioning for, and getting, direct political intervention aimed at restricting bank fees, especially for card payment services.

Banks in the United States are responding with a self-serving, semantically-polished media barrage that misleadingly suggests interference with their 'free market' pricing discretions will have unintended consequences disadvantaging consumers. On the contrary!

Behind the scenes banks and their card-scheme partners pressure regulators to leave things alone so that, invariably, promised regulatory intervention is compromised. One would like to know what disruption, alluded to in negotiations, can be so persuasive. If the regulators were co-ordinated internationally, as the card scheme partners are would the same compromises be made?

The spotlight is now on draft US legislation to regulate interchange fees. One proposal – the *Fair Fee Act* -- would have the Justice Department overseeing matters when retailers are collectively engaged in mandatory ‘cost based’ fee negotiations with card scheme operators. Another proposal – the *Credit Card Interchange Fees Act* – while not envisaging caps on fees would, much as in Australia, allow retailers to charge customers differently depending on whether they were using more or less expensive cards or cash. Both proposals are more about good-intentions than effective policy.

Nonetheless, putting these good intentions on the table in the US is important. The adoption of uniform retail payment systems and technologies internationally is being frustrated by US scheme promoters contriving unsound defences to their price-setting and profiteering powers, at home and abroad. The world wants the US card-payment system fixed.

Resolving the standoff will eventually require a donnybrook of a confrontation. The simplest and most sensible approach would be to convene an international regulatory summit to fix a target date for setting to zero the permitted interchange fees in all mature retail payment networks.

Card-users and retailers would pay fees for card-payment services directly to card-issuing banks and transaction acquirers. Card-scheme network operators would attract small fixed fees for transactions processed over their networks.

It would only dignify the deceptive nonsense trotted out by apologists for the international card schemes to detail and debate their contrived semantics. Given that cost-based pricing indicates competitive market outcomes, it is arrogant for scheme promoters to contend the setting of their fees is not a cost based calculation but is value based – that is, the monopolistic price is loaded to take to corporate coffers, estimated ‘savings’ for retailers and customers when payments are made by card.

Many countries, including New Zealand and Canada as well as much of Europe, have long had card-payment networks operating without any interchange fees. Similarly, a raft of national retail payment clearing networks, operating with cooperation and without interchange fees, weighs heavily against deceptive claims that credit-card networks ‘won’t work without them’.

Australia’s Reserve Bank has twice backed away from announced intentions to reduce credit-card interchange fees, once to zero (2002) and, last year, when a conditional reduction from the current cap was stayed. It seems that good intentions gave way to pressure from banks and scheme promoters, but there are many who would like to see clarification of the arguments that swayed the RBA’s hand. One thing is for sure, they are not on the public record in the US either.