The Reserve Bank released "[RBA's Reform of Credit Card Schemes in Aust:  "I A Consultation Document" – Dec 2001](file:///F%3A%5CDocuments%5CMy%20Web%20Sites%5CMuggaccinos%5CCreditCards%5CRBA%5Cconsultation_document__dec_2001.htm).

Below are extracts where the Reserve Bank had lofty goals
to better "....[meet the public interest test](file:///F%3A%5CDocuments%5CMy%20Web%20Sites%5CMuggaccinos%5CCreditCards%5CDefinedTerms%5CTo_Act_In_The_Public_Interest.htm) ...." and that of Merchants:

Section 21 'Reform of the credit card schemes' of EXECUTIVE SUMMARY - page iv

1. Having weighed a range of arguments from interested parties, the Reserve Bank is of the opinion that the main regulations established by the credit card schemes in Australia do not [*meet the public interest test*](file:///F%3A%5CDocuments%5CMy%20Web%20Sites%5CMuggaccinos%5CCreditCards%5CDefinedTerms%5CTo_Act_In_The_Public_Interest.htm).  The regulations suppress or distort the normal market mechanisms in ways that work against, rather than contribute to, the community’s welfare.

23. The Reserve Bank's reform measures deal only with the regulations of the credit card schemes governing the collective setting of wholesale fees, entry to the schemes and restrictions on merchant pricing. The measures do not deal with the relationships between individual scheme members and their customers which are not covered by scheme regulations. Hence, they do not cover the setting of credit card fees and charges to cardholders and merchants, or interest rates on credit card borrowings.

Section 25 'A standard for [interchange fees](file:///F%3A%5CDocuments%5CMy%20Web%20Sites%5CMuggaccinos%5CCreditCards%5CDefinedTerms%5CInterchange_Fees.htm)' of EXECUTIVE SUMMARY - page viii

25. The draft standard requires that credit card schemes publish their interchange fees and the aggregate costs that have been included. This will ensure that the calculation of interchange fees is entirely transparent and can be readily understood by card scheme members, the merchants to which the interchange fees are passed, and the community. Identifying the specific costs involved will also give card scheme members and merchants an incentive to address these costs."

Section 27 and 28 'An access regime for credit card schemes' of EXECUTIVE SUMMARY- page viii

1. Though some minimum entry standards are appropriate, the Reserve Bank believes that the current barriers to entry to the credit card schemes unduly restrict competition. The Reserve Bank's draft access regime liberalises access to the credit card schemes by allowing non-financial institutions of substance to enter the credit card market in their own right. Such institutions will need to be authorised and supervised by APRA. They will need to demonstrate to APRA that they have the skills, staffing and operational capacity for the scale of credit card activity proposed, and will have to meet ongoing prudential standards no less strict than those currently imposed by APRA for given types of risks. The draft access regime will make credit card issuing and acquiring open to greater competition, without undermining the comfort from having credit card scheme members prudentially supervised or the benefits to the credit card schemes of ‘outsourcing’ membership eligibility to APRA.
2. The draft access regime specifically prohibits any card scheme restrictions or financial penalties on members that wish to specialise in credit card acquiring. These restrictions have no basis in risk management and, whatever their original rationale, have the effect of handicapping potential competitors.

Section 1.5 *'The public interest test'* - page 11

This regulatory framework is unique: in no other market in Australia are competitors permitted, without authorisation under the *Trade Practices Act 1974*, to act collectively to set wholesale prices, prohibit merchants from passing on these prices and restrict entry to the market in a way that substantially lessens competition. The regulatory framework of the credit card schemes benefits the schemes and their members, as well as credit cardholders; however, the Joint Study raised serious doubts about whether the community as a whole also benefits. For this reason, the Reserve Bank's starting point has been to assess whether the regulations of the credit card schemes themselves can *meet the public interest test*.

The *Payment Systems (Regulation) Act 1998* provides the relevant definition of the public interest. The Reserve Bank is to have regard to the desirability of payment systems:

1. ‘being (in its opinion):
	1. financially safe for use by participants; and
	2. efficient; and
	3. competitive; and

not (in its opinion) materially causing or contributing to increased risk to the financial system.

The Reserve Bank may have regard to other matters that it considers are relevant, but is not required to do so.’

In applying this public interest test, the Reserve Bank's approach is consistent with the broad objectives of competition policy in Australia. The blueprint for this policy was set out in the report of the National Competition Policy Review (the Hilmer Report) in 1993 and endorsed by Federal and State Governments at Council of Australian Governments (COAG) meetings in 1994. Broadly speaking, competition policy seeks to promote efficiency and enhance community welfare through the encouragement of effective competition and the protection of the competitive process. The Hilmer Report identified three dimensions of economic efficiency, which are as relevant to markets for payment services as they are to other markets for goods and services:[[4](http://www.rba.gov.au/payments-system/reforms/cc-schemes/ia-consult-doc/background-reform.html%22%20%5Cl%20%22f4)]

* allocative efficiency, which is achieved where resources are allocated to their highest valued uses (ie those that produce the greatest benefit relative to costs);
* productive efficiency, which is achieved where firms produce goods and services at minimum costs; and
* dynamic efficiency, which reflects the need for industries to make timely changes to technology and products in response to changes in consumer tastes and in productive opportunities.

If it is to meet the broad objectives of competition policy, the payments system in Australia needs to give maximum rein to the workings of the price mechanism and the free movement of resources, provided the safety of the system is not compromised. For this reason, the Reserve Bank sees the following competition ‘benchmarks’ as underpinning the public interest test in the payments system:

* relative prices charged by financial institutions to consumers who use payment instruments should reflect the relative costs of providing these instruments as well as demand conditions;
* merchants should be free to set prices for customers that promote the competitiveness of their business;
* prices of payment instruments should be transparent;
* any restrictions on the entry of institutions to a payment system should be the minimum necessary for the safe operation of that system; and
* competition within the market for a payment instrument, and between different payment instruments, should be open and effective.

If markets for payment services meet these benchmarks, the community can be confident that the price mechanism will allocate resources efficiently to meet the demand for different payment instruments, while the ‘contestability’ of the markets – that is, the threat of entry by new competitors – would ensure that payment service providers earned no more than a competitive return on their investments over time.

Even within a competitive environment, there is likely to be a role for private-sector regulations to ensure the safe and orderly operation of a payment system. However, if such regulations suppress or distort the normal market mechanisms, the onus must be on those institutions imposing the regulations to demonstrate that community welfare is not harmed.

Section 5:2 merited application of the *User Pays Principle*:- page 117

"Reform of credit card schemes will also have a direct impact on credit cardholders and is likely to result in some re-pricing of credit card payment services. However, this is the means by which the price mechanism is to be given greater rein in the credit card market. A movement towards a “user pays” approach to credit card payment services would be consistent with the approach adopted by Australian financial institutions in pricing other payment instruments under their control.  As the ABA itself has confirmed: “Pricing services efficiently provides consumers with choice to use lower cost distribution channels and, therefore, facilitates a more efficient financial system. It is also fairer and efficient, because consumers only pay for what they use.”198

The principles that consumers should face prices that take into account the relative costs of producing goods and services, as well as demand conditions, and that resources should be free to enter a market in response to above-normal profit opportunities, have been the guiding principles for tariff reform and market deregulation in Australia. Such market reforms may impact unevenly on different groups – some gaining, some losing – but they are now the well-established route to more efficient use of resources in the Australian economy."

The above three extracts from "[RBA's Reform of Credit Card Schemes in Aust: – Dec 2001](file:///F%3A%5CDocuments%5CMy%20Web%20Sites%5CMuggaccinos%5CCreditCards%5CRBA%5Cconsultation_document__dec_2001.htm) predicated upon the User Pays Principle, "the community’s welfare" and "the public interest test" were drowned out and soon forgotten due to the welter of powerful lobby groups amongst [Responses to Consultation Document](http://www.rba.gov.au/payments-and-infrastructure/credit-cards/consult-doc-responses/), in particular the ABA's '[Banking Industry Response to RBA Consultation Document](file:///F%3A%5CDocuments%5CMy%20Web%20Sites%5CMuggaccinos%5CCreditCards%5CRBA%5CConsultatiionDocument2001%5Caba-0302.pdf)' - March 2002.  Below are ABA extracts:

          Chapter 6:

"If the RBA proceeds to determine the Standards and impose the Access Regime as proposed in the CD it will have acted beyond its powers, in disregard of the considerations and process directed by the *Payment Systems (Regulation) Act 1998* and upon the basis of erroneous and unreasonable assumptions."

6.1   Beyond Power

6.2   Disregard of Relevant Considerations

6.3   Mandated Process

6.4   Erroneous and Unreasonable Assumptions

[ACCC recommends Reserve Bank consider using powers to reform credit card schemes - 2001](file:///F%3A%5CDocuments%5CMy%20Web%20Sites%5CMuggaccinos%5CCreditCards%5CACCC%5CACCC_recommends_RBA_reform_Credit_Card_Schemes.htm).

Separately, the below extract from the afore-mentioned RBA's Consultation Document titled [Executive Summary - Reform of Credit Card Schemes in Australia: RBA's "I A Consultation Document" – Dec 2001](file:///F%3A%5CDocuments%5CMy%20Web%20Sites%5CMuggaccinos%5CCreditCards%5CRBA%5CConsultation_Doc_14-Dec-01-doc.pdf) notes under point 6 of 'Introduction' that some [Credit Cardholders](file:///F%3A%5CDocuments%5CMy%20Web%20Sites%5CMuggaccinos%5CCreditCards%5CDefinedTerms%5CCredit_Cardholders.htm) are enjoying the convenience of using [Credit Cards](file:///F%3A%5CDocuments%5CMy%20Web%20Sites%5CMuggaccinos%5CCreditCards%5CDefinedTerms%5CCredit_Cards.htm) without contributing to [Credit Card Issuers](file:///F%3A%5CDocuments%5CMy%20Web%20Sites%5CMuggaccinos%5CCreditCards%5CDefinedTerms%5CCredit_Card_Issuer.htm)' operating costs:

"Within the latter group, there is a third group which directly contributes very little to the costs of credit card schemes – these are the cardholders (known as [*Transactors*](file:///F%3A%5CDocuments%5CMy%20Web%20Sites%5CMuggaccinos%5CCreditCards%5CActions%5CTransactors_and_Revolvers.htm)) who settle their credit card account in full each month.  Although they normally pay an annual fee, they pay no transactions fees, enjoy the benefit of an interest-free period and in many cases earn loyalty points for each transaction."