

PETER MAIR

SUBMISSION TO TPA REVIEW

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Peter Mair

Summary:
The Real Problem With Credit Cards

Details or Transcript:

WHAT'S WRONG WITH CREDIT CARDS?

Good Evening

Credit cards are often under attack.

Usually it's because people believe that credit cards entice customers to borrow 'too much'. Other times it's about interest rates being 'too high.'

My case against credit cards is actually a different one.

Transaction cards are, of course, an excellent way to shop. It is the agreements about fees secretly charged for credit card transactions that are offensive. That is why the Reserve bank wants to regulate credit card fees.

Banks secretly set high prices for credit card transactions and charge them in ways hidden from customers.

So while customers are told credit card transactions are 'free' and allow 'interest-free' credit, neither is true in any meaningful sense.

Banks do not tell their customers that retailers are charged high fees for credit card sales -- high fees that mean higher prices for everyone.

Banks do not rush to tell us about the fixed fee retailers are forced to pay them for providing credit card sales in the first place.

That fixed fee, better known as an interchange fee, is about 1% of sales and totals about \$1 billion each year. In return for this the customers' bank does very little. A hands-free, electronic system collects and processes credit card transactions overnight, together with millions of other low-cost transactions for paying pensions and wages and utility bills. The credit card interchange fee is mostly 'money for nothing'.

The 'free credit' offered on credit cards is an illusion. If customers pay their credit card accounts by the due date, they are probably using funds already on deposit earning no interest.

There is no free-credit -- it is just 'tit for tat'.

Understanding how banks pull this credit card trick is the key. Banks issuing credit cards are members of a club with secret rules. The rule under attack requires retailers to be charged an extra 1% of credit card sales that is given to the customer's bank. There is no case for such a fee being anything like 1%.

Visa and MasterCard dominate the credit card business. Globally, the interchange fees at stake are some \$A50 billion -- and Visa and MasterCard are resisting cutbacks. The powerful banks that own Visa and MasterCard are confronting the Reserve Bank because the Reserve Bank wants interchange fees to be cut substantially. For the moment, hope that the Reserve Bank does not sell out.

You may be asking " How did this problem get so out of hand?"

There is a big problem with credit cards now because a much smaller problem was not dealt with properly ten years ago, when it was first identified. Unfortunately, we were let down by our banking and competition regulators who, for many years, turned a blind eye to offensive price setting in credit card agreements.

Even if we forget this history, it is now important to make sure that banks, among others, are never again allowed to set up secret clubs with secret agreements to secretly fix prices for making banking services available to the people.

The chief executives of banks should be asked to apologise for promoting credit cards in ways that misled and overcharged the community. The regulators that let them do this should also apologise for not saying clearly, years ago " That's over the fence, and out! "

A review of the Trade Practices Act is underway.

I have asked the Review Committee to recommend legislation that requires pricing agreements to be registered to allow transparency.

I would also like to see a prohibition against pricing agreements taking effect unless the ACCC has approved the agreements in the public interest.

Bank executives that break this law should be prosecuted as criminals.

As well, because the Reserve Bank has a conflict of interest when regulating pricing agreements involving banks that they also protect, the Review Committee has been asked to consider that the Reserve Bank should no longer be recognised as an independent competition regulator for the retail banking industry.

You may want to ask your Member of Parliament to make sure that Australia gets stronger laws against unfair trade practices.

Guests on this program:

Peter Mair

Finance and Consumer Consultant

Writer www.crikey.com.au