

3 February 2016

Head of Payments Policy Department
Reserve Bank of Australia
GPO Box 3947
SYDNEY NSW 2001

Dear Sir,

Review of Card Payments Regulation

First Data Australia appreciates the opportunity to make this submission in response to the latest Consultation Document issued by the Reserve Bank of Australia “the Bank” in December 2015. Following release of the Bank’s Issues Paper in March 2015 and the subsequent public consultation process in the following months, the Bank’s most recent paper presents some preliminary conclusions on the future of card payments regulation.

First Data agrees with the general thrust of the Bank’s review which will ensure that the card payments system remains efficient and effective and gives confidence to cardholders through its continuing integrity.

It should be noted that First Data is responding from an acquiring standpoint only and wishes to provide its views on the following aspects.

Benchmark Compliance

Background:

The Bank noted in its review that under the current compliance mechanism, average interchange fees in the MasterCard and Visa systems typically remain above the benchmarks and also drift higher over the three-year compliance cycle. This has not been the case for ePAL where average rates for proprietary debit cards have remained well below the debit benchmark.

The Bank has suggested that moving from the three-yearly compliance cycle to a quarterly cycle would assist in ensuring that schemes’ average interchange fees remain close to the benchmark level.

Response:

As the Bank identified in its paper, quarterly compliance could be quite challenging and onerous for acquirers. First Data believes that quarterly compliance would generate additional expense for acquirers that would need to be recovered and that an annual compliance cycle would be a good compromise. This could be monitored by the Bank over the next few years to see if excessive “drifting” occurs to ascertain if further tightening on that time-frame should be mandated.

The proposed changes to interchange benchmarks and ceilings (see next item) should also assist in restricting any upward drift in interchange fees between compliance cycles if they were set at 12 month intervals.

In an annual change model, it would seem appropriate to align any such changes to an “advise in April, deploy in October” timeline, since such gives a good run of six uninterrupted months’ lead time in order to prepare for change deployments. In contrast, an effective per annum change date of say 1 January would be untenable given system freezes at such peak processing periods, and an advisement in say October for activation in the following April is caught up in end of year major annual holiday periods.

Interchange Benchmarks and Cycles

Background:

The Bank has stated that the interchange benchmarks set by the Payments System Board “PSB” are the “primary instrument for the Bank to anchor credit and debit interchange fees at a desired level”. The current benchmarks of 0.5% of the value of a credit card transaction and 12 cents per debit card transaction have been in place since 2006.

The Bank is proposing to retain the weighted average of 0.5% of the value of a credit card transaction, but impose a ceiling on individual credit card interchange fees at 0.8%.

At the same time, it is proposing to reduce the weighted average benchmark on debit cards from 12 cents to 8 cents.

Response:

First Data is not opposed to these proposals from an acquiring point of view - as merchants, and ultimately consumers, should benefit from any subsequent reductions in interchange fees.

As mentioned in its response to the previous issue, First Data believes that should these proposals proceed, it will negate the need for a quarterly compliance cycle for interchange fees and these could be set annually.

Surcharging

Background:

The PSB believes that surcharging has improved pricing signals in the payments system and has contributed to downward pressure on merchant service fees since 2003.

However, it has become apparent to the PSB that the current standards have not been completely successful in preventing some behaviour that undermines price signals. The current framework is seen by many stakeholders to be complicated and inadequately enforced. A lack of transparency surrounding the calculation of merchants’ “reasonable cost of acceptance” under the current standards has been identified as a problem.

The Bank is proposing that card schemes may cap merchant surcharges to “*acceptance costs*” rather than the current “*reasonable cost of acceptance*”. This is a narrower definition than before and includes only fees paid to the merchant’s acquirer (or payment facilitator), including the merchant service fee, terminal rental and maintenance fees and other fees paid to the acquirer.

The Bank is proposing that merchants could surcharge each card scheme separately, or if they chose to apply the same surcharge to more than one scheme, their surcharge could reflect the cost of the lowest cost scheme. Surcharges would be percentage-based unless the merchant’s costs were constant regardless of the size of the transaction.

To facilitate greater transparency of permissible surcharges, the Bank is further proposing that acquirers (and payment facilitators) would have to provide to merchants in their regular statements details of the average cost of accepting each of eight specified card types. Additionally, the final statement for a financial year would provide the average for each system over the preceding year, so that a merchant could rely solely on those figures to determine its maximum surcharge.

Government legislation will ban excessive surcharging and the ACCC will have enforcement powers in cases where merchants are surcharging in excess of the cost of acceptance.

Response:

This has been a vexed issue and First Data is very supportive of legislation to ban excessive surcharging, with appropriate enforcement powers provided to the ACCC.

First Data also agrees with the proposal to narrow the definition of merchant acceptance costs to further clarify what can be included.

However, the proposal in relation to acquirers (and payment facilitators) having to provide to every merchant details of the average cost of accepting each card type in their regular statements and provide the average for each system over the preceding year appears to be quite onerous and expensive to implement.

Mandating a change to calculate and include this information on regular merchant statements is likely to have a negligible impact upon excessive surcharging as information on these costs is already available to merchants through other means. First Data provides average cost of acceptance for each card type through an “interchange plus” pricing option.

First Data prides itself in offering its merchants a range of interchange pricing options, from simple to complex, depending on what the merchant wants. Many smaller merchants prefer a blended interchange rate as it is easier for them to budget their acceptance costs going forward.

Enforcing the provision of “average interchange costs” information for each card type for each merchant would increase the complexity and size of every merchant’s statement. As a consequence, the proposal would impose ongoing production and customer servicing costs on acquirers. . If a merchant wishes to impose surcharging on its clients, it can simply move to “interchange plus” pricing to ascertain its maximum surcharge.

First Data thanks you for the opportunity to provide its further views on the Bank's Review of Card Payments Regulation and would be available to expand upon the content of this submission if required.

Yours Sincerely



Sam Itzcovitz
Managing Director