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Supplementary Submission to RBA

Designation of Visa Debit

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Contents

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1. Introduction

1.1 Background

The Payments System Board (PSB) of the Reserve Bank of Australia (RBA) designated the debit card scheme operated by Visa International (Visa Debit) as a payment system on 23 February 2004.

Prior to designation, the Australian Merchant Payments Forum (AMPF) had provided the RBA with a paper outlining its concerns relating to "scheme" debit cards in general and Visa Debit in particular[1]. Following designation, the AMPF submitted a more specific document regarding formulation of draft standards and access regime guidelines relating to Visa Debit[2].

Following publication of responses to the designation by other parties, the AMPF wishes to comment on some of the statements and issues contained in those documents.

1.2 Objectives

The key objectives of this paper are to:

- address inaccuracies in submissions made by other parties to the RBA;
- respond to statements in these submissions and clarify the AMPF's view on these issues; and
- encompass relevant findings from the Australian Competition Tribunal decision on EFTPOS.

1.3 Scope

It is not the purpose of this document to reiterate all the AMPF's arguments relating to Visa Debit, but merely to respond to particular issues raised in other submissions. This document should be viewed as a supplement to the AMPF's original submissions.

2. Merchants' Role in Reform

In their submissions to the RBA, both CUSCAL and Australian Settlements Limited (ASL) made comments regarding the role of merchants in the card payment reform process.

> *"The delaying tactics employed by the merchants on EFTPOS reform has left resentment among card issuers now suffering from a substantial fall in income from reduced credit cards and Visa debit interchange fees.[3]"*

and

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1 *Submission to RBA re Scheme Debit Cards*, AMPF, 27 January 2004.

2 *Submission to the Reserve Bank of Australia - Designation of Visa Debit*, AMPF, 2 April 2004.

3 Letter to RBA re Designation of Visa Debit, Australian Settlements Limited, 31 March 2004, p.1.

> *"Interchange fees for Visa debit have fallen in line with credit card interchange fees, providing benefits to merchants as acquirers have passed on the reductions, but merchants have been able to frustrate and delay implementation of reform to EFTPOS interchange fees.[4]"*

The AMPF has strongly supported the card payment reform process in Australia and totally rejects any suggestion that it has tried to delay the process of EFTPOS reform. The AMPF has always put forward its views as appropriate and has at all times been open in its approach.

While the EFTPOS interchange review process did take some 18 months to resolve, it was in fact the "Applicant Banks", including both ASL and CUSCAL, who started this process and applied to the ACCC for approval of zero interchange in what the Australian Competition Tribunal called *"a per se unlawful agreement"*. [5]

It should also be remembered that the substantial fall in credit card interchange was the result of a review of an anti-competitive, price fixing arrangement that effectively established a floor in merchant service fees, costing retailers and consumers hundreds of millions of dollars each year over many years.

The AMPF strongly believes in a robust, secure and efficient payment system with costs fairly allocated between all participants. The AMPF's opposition to the proposed reform to EFTPOS interchange fees has been upheld by the Australian Competition Tribunal which found that *"Any public benefits [from zero interchange] are clearly outweighed by the detriments"*[6] and *"There is real public detriment in the likelihood of a flow on of costs to consumers generally".*[7] The AMPF genuinely believes that this outcome is the best possible for the on-going health of the EFTPOS network.

The AMPF will continue to support reform of the card payment system and is happy to work closely with the RBA and all other interested parties to achieve this.

3. Honour All Cards Rule (HACR)

A number of statements regarding the HACR have been made in submissions to the RBA by issuers of Visa Debit and by Visa itself. These are perhaps best summed up by the following statements:

> *"The 'honor all cards' rule is, therefore, a fundamental rule of Visa International's payment system."* [8]

and

> *"The HAC rule prevents discrimination by acquirers between issuers and card products within a card scheme."* [9]

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4 *Visa Debit Submission to RBA*, CUSCAL, 26 March 2004, p.1.

5 *Determination re EFTPOS Interchange Fees Agreement [2004] ACompT 7*, Australian Competition Tribunal, 25 May 2004, para. 157.

6 *Ibid*, para. 153.

7 *Ibid*, para. 157.

8 *Visa Debit Card Scheme In Australia - Comment On Reserve Bank Of Australia Concerns*, Submission by Visa to RBA, 26 March 2004, p.10.

It is important to understand that when the HACR was originally introduced, Visa (and MasterCard) only had credit cards; debit cards were introduced at a later stage and the HACR was extended to cover these cards in some countries (eg USA and Australia), but not in others (eg UK).

The AMPF made the following statement in its submission to the RBA in January 2004 which we believe accurately sums up the situation.

> *"The HACR was originally introduced by the card schemes as a means to ensure that any merchant that agreed to accept, for example, Visa credit cards would accept all Visa credit cards irrespective of the country of issue or the issuing institution. This in fact was the cornerstone of the schemes' operations and without this assurance to cardholders that their card will have guaranteed acceptance everywhere the logo is shown, the card schemes probably would not exist at all.*
>
> *"There is nothing inherently wrong with the rule. Its intent is to ensure merchants don't accept Visa cards from one bank, but refuse the same card issued by another bank, is still valid today and essential to the on-going success of the schemes. The concern here is that the rule has been abused to mandate that merchants must accept a range of different card types, even if it is detrimental to their business. This rule was not originally intended to allow card schemes to insist that merchants must accept their debit cards if they accept their credit cards."* [10]

The HACR, as applied to credit vs debit card products, is not "fundamental" to the operation of the Visa (or MasterCard) card scheme and this is clearly demonstrated by practices in other countries. Visa has argued that the US precedent following the Wal-Mart case, is not relevant to Australia, as has St. George Bank. The impression given is that removal of the HACR in the USA is an anomaly caused by legal action which is specific to that environment. This is not so.

The UK provides a good example where the HACR does not apply to both credit and debit cards, without any apparent detriment to any parties. In the UK, Visa has two debit products in addition to its range of credit cards - these are Visa Debit (also called Visa Delta) and Visa Electron. The UK Visa Debit card is similar in operation to the Australian Visa Debit product - it is signature based, can operate off-line electronically (ie electronic store and forward) and can also be used with paper vouchers and for Card Not Present (CNP) transactions. The Visa Electron card, while also signature authorised at the point of sale (POS), must be processed on-line with the card present.

The HACR for Visa in the UK is specific to the card type. In other words, merchants can elect to accept Visa Credit without having to accept Visa Debit and vice versa. As an example, the Post Office accepts Visa Debit and Visa Electron but not Visa credit cards. Similarly, some merchants accept Visa Debit but not Visa Electron, so the HACR does not even apply to all debit cards.

This approach is confirmed in the European Commission's decision on Visa's credit card interchange fee:

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[9] *Visa Debit Submission to RBA*, CUSCAL, 26 March 2004, p.5.

[10] *Submission to RBA re Scheme Debit Cards*, AMPF, 27 January 2004, p.15.

> *"According to Visa, merchants whose agreement requires them to accept Visa cards are not required to accept Electron cards, and merchants having an agreement to accept Electron cards are not required to accept Visa cards."* [11]

This has not caused the collapse of the Visa scheme in the UK and in fact has not created any perceptible problems for the schemes, issuers, acquirers, merchants or cardholders.

MasterCard in the UK also allows merchants to accept MasterCard credit cards without having to accept Maestro debit cards and vice versa.

The card schemes impose the HACR when they believe it is appropriate, but at other times allow breaches to occur if it suits them. For example, in some countries Visa Electron cards are not embossed so that they can only be processed electronically. However, in other countries Electron is allowed to be processed on paper vouchers. If an unembossed card is presented in a country where a merchant does not have an electronic terminal, despite the presence of the Visa Electron acceptance decal, the merchant is actually unable to process this unembossed card. Similarly, in some countries such as Brazil, Visa Electron must be used with a PIN. However, merchants in the UK, for example, are unable to process these cards because they do not have the capability to process on-line PINs at the point of sale.

Similarly, a Maestro branded card issued in Australia (such as those issued by CBA) can only be used with a PIN at the point of sale. If one of these cards is swiped through an electronic terminal in the UK, for example, the card will be rejected despite the merchant displaying a Maestro acceptance symbol, for exactly the same reason.

The point of these examples is to show that while an "honour all issuers" rule makes sense, the schemes can operate completely satisfactorily without an "honour all products" rule.

Finally, CUSCAL provides an interesting perspective on the HACR in its submission. It believes that the HACR is essential because otherwise large merchants could refuse to accept Visa Debit cards while continuing to accept Visa credit cards.

> *"Visa debit's viability would be under serious threat if it were not accepted by CML. …. Similarly, abolition of the HAC rule would enable Woolworths to turn off Visa debit"* [12]

CUSCAL believes that these merchants should be forced by card scheme rules to accept Visa Debit cards. However, their submission goes on to say:

> *"merchants should not be able to dictate to customers what cards they carry in their wallet."* [13]

In other words, according to CUSCAL, it appears there should be different standards for issuers and merchants. The AMPF members have no desire to dictate what cards customers should or should not carry in their wallet; they wish only to be able to decide which types of cards they themselves will or won't accept. For example, it is worth noting that a large number of retailers already choose not to accept American Express or Diners Club cards.

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[11] *Official Journal of the European Communities, Commission Decision - Case COMP/29.373 – Visa International*, European Commission, 11 August 2001, para.19.

[12] *Visa Debit Submission to RBA*, CUSCAL, 26 March 2004, p.5.

[13] *Ibid*, p.6.

The AMPF further submits that the HACR, to the extent that it requires merchants who accept VISA credit cards to also accept VISA debit cards, is in breach of the Trade Practices Act, and does not promote economic efficiency in payment systems.

As the ANZ Bank noted in its Response to the Joint Study:

> *"credit cards are often superior from the point of view of merchants, which is why they are prepared to pay the associated merchant service fee. Credit cards relieve the liquidity constraints faced by many consumers and so lead to a greater volume of sales from merchants who accept them."* [14]

Whilst the level of benefits of credit cards to merchants and the amount of associated merchant service fees that merchants are prepared to pay is debatable, there is no doubt that debit cards do not offer merchants this facility, as noted by the CBA in its comments on the Joint Study:

> *"debit cards are not designed to enhance the welfare of merchants. Issuers offer debit cards to their customers as a convenient and inexpensive substitute for cash or cheques. The availability of the debit card is unlikely to induce a customer to make a purchase that he or she would not have otherwise made with cash. The business generation potential of credit cards is clearly superior to that of debit cards."* [15]

As discussed earlier, it is accepted that a rule that requires merchants to accept all Visa credit cards presented irrespective of the issuing bank is necessary to ensure the efficient operation of the Visa credit card network. However, the extension of the rule to require merchants to accept Visa Debit cards if they accept Visa credit cards forces a merchant to accept a product which has all the attributes of a debit card but for which the acquirer requires a credit card fee to be paid.

In its submissions to the Reserve Bank on Visa Debit, Visa submits that Visa Debit cards

> *"are different from ATM/EFTPOS debit cards and consequently warrant different treatment."* [16]

None of the features mentioned by Visa have any relevance to merchants accepting a Visa Debit card <u>at the point of sale</u> in Australia. **From the merchants' perspective a Visa Debit card is of no greater value then an EFTPOS debit card.**

A HACR which has the effect of imposing a charge applicable to credit cards (with all of the additional benefits and services inherent in credit card usage) for a debit card transaction (in respect of which none of these additional factors apply) cannot be economically efficient.

Visa also argues that one of the economic arguments in support of the HACR is that small financial institutions such as credit unions rely on the fee flow from Visa Debit cards and its removal may have an adverse impact. The AMPF believes this reasoning is flawed. If, without the HACR, merchants would not accept Visa Debit at the current charges, Visa would be forced to adjust its charges, or Visa Debit would disappear. The market would

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[14] *Response to RBA/ACCC Study of Interchange Fees and Access*, ANZ Banking Group Ltd, 29 January 2001, para. 6.9.

[15] Comments by Commonwealth Bank of Australia on the Joint RBA/ACCC Study *Debit and Credit Card Schemes in Australia - A Study of Interchange Fees and Access*, 20 December 2000, p.9.

[16] *Visa Debit Card Scheme In Australia - Comment On Reserve Bank Of Australia Concerns*, Submission by Visa to RBA, 26 March 2004, p.1.

determine the outcome, and the small financial institutions would have to adjust to the new market conditions.

4. Interchange

As outlined in our previous submissions, the AMPF believes that interchange for Visa Debit should be the same as that for EFTPOS when used at the point of sale (POS). This puts the AMPF at odds with the Visa Debit issuers who believe that the Visa Debit interchange fee should for some reason be based on the Visa credit interchange.

> *"CUSCAL supports a Visa debit interchange fee standard based on the credit card interchange fee standard"*[17]

and

> *"In summary, consistent with the principles in the existing regulations for credit card transactions, the cost-based benchmark for Visa debit card transactions would be calculated in the same manner as for credit card transactions."* [18]

There is no logical reason for this. The Visa Debit issuers seem to forget that the product is exactly that - a debit card. Its use at the point of sale should be governed by the same principles as EFTPOS, particularly given that Visa Debit cards can be processed through the same system (with higher security and lower fraud than if processed via the Visa network).

This view is supported by CBA, one of the major acquirers in Australia:

> *"The Bank [CBA] agrees that Visa debit transactions (where the consumer selects the credit option rather than the debit option) should be subject to debit card rather than credit card interchange arrangements"* [19]

The Australian Competition Tribunal, in its recent decision on EFTPOS interchange fees, also emphasised the difference between credit and debit cards and that they are not, per se, substitutable products. It also found that there are good reasons why credit card costs are higher than for debit cards, mainly due to the provision of credit:

> *"They [credit and debit cards] are simply different products."* [20]

and

> *"The holder of a credit card has access to a number of benefits not available to the holder of a debit card."* [21]

and

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[17] *Ibid*, p.1.

[18] *Visa Debit Card Scheme In Australia - Comment On Reserve Bank Of Australia Concerns*, Submission by Visa to RBA, 26 March 2004, p.3.

[19] Comments by Commonwealth Bank of Australia on the Joint RBA/ACCC Study *Debit and Credit Card Schemes in Australia - A Study of Interchange Fees and Access*, 20 December 2000, p.9.

[20] *Determination re EFTPOS Interchange Fees Agreement [2004] ACompT 7*, Australian Competition Tribunal, 25 May 2004, para. 155.

[21] *Ibid*, para. 61.

> *"As Dr Williams points out, it should not be surprising that credit card transactions involve significantly more cost compared with debit card transactions. They have different characteristics, primarily caused by the credit card combining a loan with a payment mechanism."* [22] *(emphasis added)*

We note ASL's view that *"interchange fees for Visa Debit could be different for different transaction types (e.g. one rate for card present transactions and another for cardholder not present transactions)".* [23] The interchange fee for MOTO, Internet or paper voucher transactions could potentially attract a different rate than transactions conducted at the point of sale. However, we would wish to see some further detail on this, including cost data, before a decision can be made. For example, if the merchant is responsible for fraud, then there is no justification for including its cost in an interchange calculation.

The AMPF strongly disagrees with CUSCAL's statement that:

> *"The Visa debit interchange fee should be an ad valorem rather than a flat fee."*[24]

As discussed in our submission in January, the AMPF believes there is no justification for debit card interchange to be levied on an ad valorem basis for transactions at the point of sale. When the card is used at the point of sale, the balance can be checked on-line, the card is present and the transaction can be PIN authorised if desired. This means there is a very low risk of fraud and virtually no risk of bad debt.

The fraud associated with EFTPOS is around three thousandths of one percent and any cost of fraud above these levels should not be allowed to be included as an eligible cost for Visa Debit for POS transactions. Visa Debit cards can currently be processed using PIN authorisation via the EFTPOS network. If Visa or the Visa Debit issuers choose not to use PIN authorisation for their debit cards when this technology is available and already in use, then they should not be able to claim for the cost of resultant fraud. Indeed this would be a perverse outcome, as it would not provide any incentive for Visa Debit issuers to reduce fraud. It is also unreasonable to ask the merchant to pay for these additional costs.

There is no interest free period for debit cards, so this ad valorem element is also not appropriate for Visa Debit. The authorisation and processing costs are a fixed cost per transaction and do not vary according to the purchase value, further supporting a fixed transaction fee for debit interchange.

CUSCAL has said that it *"supports a Visa debit interchange fee based on objective, transparent and cost-based methodology"*[25]. This is the same methodology advocated by the RBA for credit cards. However, unlike the application of this for credit cards, the AMPF believes that **all** costs should be taken into account if this methodology is employed, including those incurred by acquirers and merchants. We can see no logical reason why only those costs incurred by issuers, as is the case for credit cards, should be considered in isolation from the costs of other stakeholders.

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[22] *Ibid*, para. 150.

[23] Letter to RBA re Designation of Visa Debit, Australian Settlements Limited, 31 March 2004, p.2.

[24] *Visa Debit Submission to RBA*, CUSCAL, 26 March 2004, p.4.

[25] *Visa Debit Submission to RBA*, CUSCAL, 26 March 2004, p.4.

5. Identification of Visa Debit Cards

The AMPF has argued strongly for separate identification of Visa Debit cards so that they can be recognised at the point of sale. This identification should not only be visual, but also these cards should have separate BINs which are available and known to all parties, ie issuers, acquirers and merchants. This issue has been supported by Visa Debit issuers as well as by Visa International:

> *"St.George fully supports the RBA recommendation that the Visa Debit product is easily identified at the point of sale. As you are aware St.George already has unique BIN identifiers for our scheme debit portfolios, and we will continue to work with Visa and other issuers to ensure the product design standards reflect the distinction of the Visa Debit card from both Visa Credit and standard EFTPOS cards."* [26]
>
> *"We [CUSCAL] do not oppose distinguishing Visa debit from Visa credit at the point of sale."*[27]
>
> *"Visa Asia Pacific is prepared if necessary to seek the necessary approvals to require Visa International's members in Australia to add an identifier to their Visa Flag card to clearly distinguish "debit" cards from its other payment cards.* [28]

Given that the main issuers, St. George Bank and CUSCAL, as well as Visa itself are prepared to support separate visual distinction of Visa Debit cards, it is recommended that work on this commence as soon as possible. This should be completed within a reasonable, stipulated timeframe from the date of the final designation findings. The AMPF believes it should be mandated that all replacement cards should be issued with the new identification and that all cards should be converted within a maximum of 3 years.

6. Visa Debit Functionality

There is a recurring theme through many of the submissions in that they attempt to connect Visa Debit functionality to that of Visa credit cards. Presumably, this is to justify the linking of the interchange fee to the credit card interchange arrangements (ie an ad valorem, positive interchange flow).

There is also a strong push to show that Visa Debit has more functionality than EFTPOS, again presumably to justify a higher interchange fee. The reality is that <u>at the point of sale</u> Visa Debit in fact has less functionality than either a credit card (it has no interest free period and no access to a line of credit) or an EFTPOS card (it cannot provide cash out[29]).

The following statements illustrate this line of arguing:

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[26] Letter to RBA re Designation of Visa Debit, St. George Bank Limited, 25 March 2004, p.2

[27] *Visa Debit Submission to RBA*, CUSCAL, 26 March 2004, p.4.

[28] *Visa Debit Card Scheme In Australia - Comment On Reserve Bank Of Australia Concerns*, Submission by Visa to RBA, 26 March 2004, p.8.

[29] Cash out cannot be provided on Visa Debit if it is processed via the Visa system (ie the [credit] button is pushed). However, if the Visa card is used as an EFTPOS card and processed via the EFTPOS system, then cash out can be provided.

CUSCAL:

"Visa debit is a payment card with the functionality of a credit card." [30]

VISA:

"Visa believes that the Visa debit card differs greatly from the ATM/EFTPOS cards issued by depositary institutions."[31]

and

"Visa debit provides functionalities which are more similar to those of Visa credit than they are to the ATM/EFTPOS cards issued by depositary institutions." [32]

ASL:

"credit card transactions would displace Visa Debit transactions" [33]

It is important not to lose sight of the fact that the Visa Debit card is exactly that - a debit card. It is a "pay-now" card, just as EFTPOS is. There is nothing distinctive about Visa Debit which justifies a fee that is any different to EFTPOS, at least at the point of sale. Visa Debit offers nothing that is not currently offered in the market by either credit or EFTPOS cards.

Despite this, the Visa Debit issuers attempt to justify higher income based on alleged higher costs. The following statement by St. George Bank (emphasis added) illustrates this issue.

> *"Importantly the differences between scheme debit and EFTPOS need to be fully understood. The payment access provided by the Visa Debit product carries <u>several areas of additional cost</u> that are not applicable to standard EFTPOS based transactions. <u>These costs include fraud, scheme charges, collection costs, write-offs where transactions place accounts in arrears, paper processing costs, chargeback processing costs and costs of supporting international transactions</u>."*[34]

For EFTPOS transactions at the point of sale, the majority of these costs are either substantially less or not present at all. Participants have worked very hard to ensure that EFTPOS is a very secure on-line system which minimises fraud and chargeback costs, eliminates paper processing costs and, because of on-line processing, means that no issuer needs to allow transactions which place accounts in arrears unless they make a conscious decision to do so. **The statement by St. George Bank is really saying that the Visa Debit system has a number of weaknesses and acquirers (and eventually merchants) should pay for the associated costs.** This is nonsensical given that most of these costs can be significantly reduced or even eliminated by simply processing the Visa Debit transaction via the EFTPOS network. This can be done today, but many issuers continue to urge their customers to press the credit key for these debit transactions in order to gain the higher interchange income, despite the fact it is less secure as well as being substantially more expensive for merchants.

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30 *Visa Debit Submission to RBA*, CUSCAL, 26 March 2004, p.3.

31 *Appendix A - Visa's Response To The RBA On Debit Issues*, Attachment to Visa's submission to the RBA prepared by NECG, March 2004, p.6.

32 *Ibid, Appendix A,* p.11.

33 Letter to RBA re Designation of Visa Debit, Australian Settlements Limited, 31 March 2004, p.3.

34 Letter to RBA re Designation of Visa Debit, St. George Bank Limited, 25 March 2004, p.1

Visa has recently attempted to reinforce the link between Visa Debit and credit by stating that research it has undertaken shows that if Visa Debit was withdrawn from the market, customers will move to credit cards rather than EFTPOS.

> *"Bank customers using the Visa Debit product would switch to a credit card rather than to an alternative debit card product if their bank withdrew the Visa Debit card because it was no longer attractive to issue, Visa's new head in Australia believes."*
>
> *"If Visa Debit becomes unattractive, the research shows that those consumers will move to credit cards, not to Eftpos cards. They've already made that decision. They want a more fully featured product."* [35]

This argument does not make sense. In a competitive market, customers should be allowed to choose which product(s) they want. If they want a credit card, then they will make that choice (if they qualify), irrespective of whether Visa Debit continues to be offered or not. However, experience by CBA shows that when it withdrew its Visa Debit product, customers were moved across to EFTPOS cards, not to credit cards.

> *In the Bank's [CBA] letter to the RBA dated 20 December 2000, the Bank indicated that it was reviewing the Visa debit card product that was acquired from Colonial Limited. As a consequence of that review, the Bank has discontinued the Visa debit product <u>and has replaced all Colonial's Visa debit cards with standard Commonwealth Bank debit cards</u> as part of the Bank's conversion of Colonial's products over the weekend 2 / 3 June 2001.* [36] *(emphasis added)*

It should be noted that not all Visa Debit cardholders would qualify for a credit card. Further, there are additional costs for a credit card issuer such as the process of screening new account applications.

7. Linkage of Credit and Debit Reforms

A number of the submissions by Visa issuers infer that the elimination of EFTPOS interchange fees is part of a trade-off for reduced income from credit card (and, by association, Visa Debit) interchange.

> *"This means that the RBA's reform agenda has, to date, delivered benefits to acquirers and merchants but nothing to EFTPOS cardholders. Interchange fee revenue to credit unions from Visa debit transactions has been reduced, without any reduction in EFTPOS interchange fee costs.* [37]*"*

and

> *"To ensure a fair and competitive result, and to deliver the RBA's stated policy objectives, the optimal outcome across the various payment instrument review processes would have been concurrent reform of interchange fee arrangements for credit cards, Visa debit and EFTPOS. CUSCAL has particularly emphasised*

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35 *Visa argues credit cards, not Eftpos, as the alternative to Visa Debit*, The Sheet Daily, Monday 31 May 2004 - Edition 251.

36 *Submission to Reserve Bank of Australia – Designation of Credit Card Schemes in Australia*, Commonwealth Bank of Australia, July 2001, p.13.

37 *Visa Debit Submission to RBA*, CUSCAL, 26 March 2004, p.1.

> *the importance to credit unions of concurrent reform of Visa debit and EFTPOS."*[38]

Credit card reforms were the result a review of an anti-competitive, price fixing arrangement that cost retailers and consumers hundreds of millions of dollars each year over many years.

In contrast, there are no collective anti-competitive fee arrangements with EFTPOS. To suggest then that the elimination of EFTPOS interchange fees is a necessary trade-off for reduced income from credit card interchange, ignores the real public detriments that would result from such a collective arrangement, as determined by the Australian Competition Tribunal.

8. Relevance and Viability of Visa Debit

ASL and CUSCAL have both raised the possibility that any modifications to Visa Debit interchange could have a substantial impact on the viability of Visa Debit and could lead to issuers withdrawing the program from their range of payment products.

> *"Building Societies fear that the interchange fees will decline further placing the viability of a Visa debit in considerable doubt."* [39]

> *"If the interchange rate for Visa debit were to drop much below the credit card interchange levels, the product would not be viable for Building Societies to offer customers as part of their payment product mix."* [40]

> *"Visa debit would quickly disappear as cardholders replaced their Visa debit cards by a universal credit card."* [41]

> *"We look forward to working with the RBA on reform of Visa debit but we warn that if Visa debit is pushed out of the market by ill-considered regulatory intervention, the outcome will be …."*[42]

The base argument seems to be that Visa Debit could not survive in a truly competitive market and therefore should be protected by the HACR and by credit card based interchange fees. However, the Visa Debit product does not offer customers any functionality that is not already offered by either credit cards or EFTPOS.

It is the AMPF's view that Visa Debit should not be artificially protected. If it is not viable without resorting to anti-competitive measures such as the HACR or without inappropriate credit card related interchange fees, then it should not continue. As CBA has shown, customers can be offered an alternative EFTPOS product that meets their needs.

The AMPF is not advocating that Visa Debit should disappear, simply that it should not be propped up by inappropriate and inefficient pricing of interchange fees or by the HACR.

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38 *Ibid*, p.1.

39 Letter to RBA re Designation of Visa Debit, Australian Settlements Limited, 31 March 2004, p.2.

40 *Ibid*, p.3.

41 *Ibid*, p.3.

42 *Visa Debit Submission to RBA*, CUSCAL, 26 March 2004, p.8.

9. Other Issues

CUSCAL invokes the "David and Goliath" analogy to support its argument in favour of Visa Debit.

> *"In Australia, acquiring is dominated by the big four banks. The biggest acquirers do not issue Visa debit and, historically, have not been supporters of the product."* [43]

We do not see the relevance of this. However, in the interest of accuracy we wish to comment on this statement. In fact 2 of the 5 major acquirers issue Visa Debit (St. George Bank and Westpac) and a third (CBA) did issue Visa Debit, although it has now converted this card base to EFTPOS.

Visa has also suggested that issuance of Visa Debit products by smaller financial institutions has enabled such institutions to compete with much larger competitors.[44] Given any member of Visa may issue a Visa Debit card it is difficult to see how Visa debit could provide any such sustainable competitive advantage. Further, if this was the case, then why have some small financial institutions such as the Bank of Queensland chosen not to issue these cards? Indeed there is no explanation from CUSCAL or any other supporter of Visa Debit as to why members of the Visa scheme including most the major banks do not support the product.

10. Summary

In summary:

- the HACR should be amended so that merchants are free to accept Visa credit cards without having to accept Visa Debit cards and vice versa;
- the AMPF believes the HACR is in breach of the Trade Practices Act;
- interchange fees should be the same as those for EFTPOS when used at the point of sale (POS). The interchange fee should a fixed fee per transaction and not ad valorem;
- Visa Debit is not a credit card. Debit cards are inherently different to credit cards and should not have an interchange fee based on credit card interchange rates or methodology;
- Visa Debit cards should be visually identifiable at the point of sale and should have separate published BINs. All cards should be changed as they are re-issued with all cards being replaced within 3 years; and
- Visa Debit should not be supported by anti-competitive measures such as the HACR or inappropriate interchange rates.

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[43] *Ibid*, p.5.

[44] *Visa Debit Card Scheme In Australia - Comment On Reserve Bank Of Australia Concerns*, Submission by Visa to RBA, 26 March 2004, p.1