Submission to the Reserve Bank of Australia

Draft Standards for EFTPOS & Visa Debit

29 April 2005

Contents

1. Introduction ... 3

2. Issues ... 3

2.1 Substitutes ... 3

2.2 Cardholder Choice ... 3

2.3 Sustainability ... 4

2.4 Prices ... 4

2.5 Interchange Value ... 6

2.6 Switch to Visa Debit ... 6

2.7 Visa Debit Interchange ... 6

2.8 Honour All Cards Rule ... 7

2.9 International Comparisons ... 7

2.10 Market Research ... 9

New Zealand Research ... 10

Australian Research ... 10

2.11 EFTPOS In Balance ... 11

2.12 Merchant Costs ... 12

2.13 Acquirers Provide Services ... 13

2.14 Fraud ... 13

3. Draft Standards ... 14

3.1 Draft Standard No 3 ... 14

3.2 Draft Standard No 4 ... 14

3.3 Draft Standard No 5 ... 14

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1. Introduction

The Payments System Board of the Reserve Bank of Australia (RBA) has published a document titled *Reform of the EFTPOS and Visa Debit Systems in Australia – A Consultation Document*, dated February 2005, setting out draft standards for the systems, and the RBA's core reasoning. The RBA has requested interested parties to make submissions by 29 April 2005.

The Australian Merchant Payments Forum (AMPF) has participated actively in the reform process being conducted by the RBA. This document is in response to the RBA's request and puts forward the views and comments of the AMPF with regard to the Consultation Document and the draft standards contained within it.

The AMPF has previously submitted that there were no valid grounds for designation of the EFTPOS system, and, with the exception of Woolworths, is challenging the legality of that decision in the Federal Court. The AMPF has also submitted that there are no grounds to introduce a standard for the determination of EFTPOS interchange. The comments made in this document in relation to the published draft standard for EFTPOS or Visa Debit interchange are made without prejudice to the AMPF's position in relation to those issues.

2. Issues

The AMPF wishes to briefly comment on a number of issues raised within the Consultation Document. Comments on the draft standards follow this section. Many of these issues have been addressed in detail in previous submissions by the AMPF. It is not intended to repeat all arguments in full, but to provide a high level comment on those issues previously covered.

2.1 Substitutes

> *"The Bank also considered whether it was necessary to obtain formal estimates of the extent of substitutability between different payment instruments. It concluded that it was not necessary to do so given the strong evidence that credit and debit cards are highly substitutable for many people." (page 9)*

The Australian Competition Tribunal, after hearing the evidence of five economists set out the differences between credit cards and debit cards and concluded they were *'simply different products'*.

The AMPF submits that there is no "strong evidence" to support the RBA's contention. In addition, there are a number of people who do not have both a credit card and an EFTPOS card, and for these people, there is no choice.

2.2 Cardholder Choice

> *"Encouraging more efficient payment choices by cardholders should reduce merchants' overall costs, and thus put downward pressure on the overall level of prices for goods and services." (page 10)*

The RBA believes that cardholders decide whether to make payment with a credit or debit card depending upon the price they are charged for using the card. The AMPF has commissioned independent market research to test this claim, and the results do not support the RBA's view.

The AMPF agrees with the finding of the ACT that cardholders are unlikely to increase their use of EFTPOS as a result of a reduction in the level of interchange fees. However, as the ACT also concluded, reducing the level of negative interchange on EFTPOS transactions is highly likely to increase merchants' costs, leading to an increase in prices for all consumers.

2.3 Sustainability

> *"In the Board's view, in the medium term, it is unlikely to be sustainable for financial institutions to offer a large number of free EFTPOS transactions while having to pay an interchange fee of around 20 cents on each of these transactions." (Reasons for Designation, para. 46)*

A cheque or savings deposit account with a fixed monthly fee and unlimited free EFTPOS transactions is currently available from the ANZ Bank, the National Australia Bank and Westpac. While the ANZ was the first to make this customer offer, their competitors have followed their example. Free market forces are at play here and none of these banks would make this offer if it was financially non-viable.

There are two implications of this situation. The first is that the already low proportion of EFTPOS account holders who pay fees (which has fallen from 40% in 1999 to 28% (excluding ANZ) in 2004) will continue to decline with no alteration of EFTPOS interchange rates. The second is that this offer is clearly beneficial to the card issuers or they would not be making it. There is no evidence to suggest that this offer from three of the major retail banks is not sustainable. On the contrary, the RBA has previously recognised that the offer cannot be viewed in isolation, as banks have a variety of sources of income.

The retail banks have made, and continue to make, very large cost savings from the introduction and widespread use of electronic banking. The EFTPOS card was, and remains, a key element of electronic banking. It has allowed the elimination of paper passbooks, the introduction of wage and salary payments by direct debit, a reduction in the number of cheques processed, a large reduction in over-the-counter transactions and a reduction in the number of retail branches required. These savings mean that there is no doubt that the fee-free EFTPOS product can be sustained by issuers.

2.4 Prices

The RBA believes that the price paid by a cardholder for an EFTPOS transaction is greater than the price of a credit card transaction. Here are two examples from the Consultation Document:

> *"cardholders face higher prices for EFTPOS transactions than for credit card and Visa Debit transactions." (page 1)*
>
> *"For many people, the effective price for using the EFTPOS system is higher than that for using the credit card system." (page 10)*

For the major retail banks, annual credit card fees typically range from around $20 to $90 per year. The additional fee for participating in a credit card rewards program typically ranges from $20 to $50 per year. The more recent "no frills" cards have lower fees, or no fees. On balance, an annual average price paid by the cardholder of around $35 would seem conservative.

Whereas the monthly fee (typically $5) for a cheque or savings deposit account covers a range of facilities including account operation, access to Bpay, use of ATMs, use of EFTPOS, and so on, the annual fees and charges for a credit card relate only to that payment method.

In 2004, there were 101.4 purchase transactions per credit card account, on average. On this basis, the average price per transaction to the credit cardholder of annual card fees (of $35 per year) would be 34.5 cents in 2004.

Around 70% of credit card balances were revolving and attracted interest charges in 2004. Assuming an average annual interest rate of 16%, this would increase the price by $2.72 per credit card transaction.

It should also be remembered that cardholders with a revolving balance do not get the interest free period.

When annual fees and revolving interest charges are totalled, the average price per credit card transaction is around $3.06 for 2004.

If other fees and charges, such as late payment fees, are included, the total price per transaction would be even higher.

In addition to the fees charged by the issuing banks, some merchants are now beginning to surcharge for credit card transactions. Where these surcharges apply, the credit cardholder now faces additional fees for each payment transaction.

The RBA has made an estimate in its *Reasons For Designation* (para 26) that 60% to 65% of cardholders receive a benefit from the interest-free period that is "equivalent to over half a per cent of the amount spent (at current interest rates)." With an average credit card transaction value of around $129 in 2004, an amount of 0.5% would represent 64.5 cents per transaction. If we allow for 63% of cardholders receiving this benefit, this would equate to an average saving of around 41 cents per credit card transaction.

In its *Reasons For Designation* (para 27), the RBA has estimated the average reward to a cardholder from a credit card rewards program to be around 0.7% of transaction value. If this number is accepted as correct, then this would average around 91 cents per transaction for 2004. If we assume that around 50% of credit cardholders belong to a rewards program (we have no current data on rewards program participation or redemption rates) then the average reward to a credit cardholder would be around 45.5 cents per transaction.

If a total "benefit" of 86.5 cents is netted off against an average price of $3.06, then a "bottom line" price to the credit cardholder for 2004 would be of the order of $2.19 per transaction.

From the EFTPOS data obtained by the RBA for June 2004 (referred to at page 4 of the Consultation Document), it appears that around 75% of EFTPOS transactions attracted no fees in that month, or had an effective price per EFTPOS transaction of zero.

While the estimated price for credit card transactions must be approximated without detailed statistical data available, the basic conclusion to be drawn is that, on average, **it is likely that the price of a credit card transaction paid by a cardholder exceeds the price of an EFTPOS transaction and by a significant amount**.

2.5 Interchange Value

The RBA claims that EFTPOS interchange fees have not reduced in value since their introduction in the late 1980's.

> *"In both the credit and debit card systems, interchange fees have barely moved over the past decade despite significant changes in costs and the maturing of the systems." (page 20)*

Using government CPI data, it can be calculated that the real value of EFTPOS interchange fees has halved due to the effects of inflation in the last 20 years. If EFTPOS interchange rates were to have the same value as when they were first introduced, they would have been gradually increased in line with inflation and would be around negative 40 cents per transaction, on average, today.

2.6 Switch to Visa Debit

The RBA claims that issuers may decide to convert their EFTPOS card base across to Visa Debit as it is in their economic interest to do so.

> *"there would be a strong incentive for financial institutions to promote scheme-based debit systems, such as Visa Debit, at the expense of EFTPOS." (page 1)*

When the Commonwealth Bank acquired the Colonial State Bank it faced a decision with regard to the Visa Debit cards issued by Colonial. It decided to convert all of these cards across to EFTPOS cards. It made this decision on commercial grounds. When this decision was made the interchange revenue earned on Visa Debit cards was much higher than it is today before an average reduction of around 40 basis points (which has occurred since 1 November 2003).

In fact, there has been no move by any of the major EFTPOS issuers to move their EFTPOS card base to Visa Debit at any stage during the past 20 years despite the interchange incentive to do so.

The savings made internally by the banks through EFTPOS usage are much greater than the cost of a negative interchange fee. The EFTPOS and ATM card is an on-line and PIN-based product which allows it to be issued to anybody who opens a bank account, with virtually zero risk of bad debt or fraud. The Visa Debit product does not offer this capability and cannot do so as long as it remains signature based. In addition, the EFTPOS payment does not attract any scheme fees as Visa Debit does, and these fees are a significant cost for card issuers. Further, the cost of fraud on a signature based card is always higher than on an on-line, PIN-based card.

The AMPF does not agree that there is a "strong incentive" for institutions to switch their EFTPOS card base across to Visa Debit. All the incentives are the other way, and market behaviour demonstrates there is no basis for the RBA's conclusion.

2.7 Visa Debit Interchange

In the Consultation Document, the RBA has indicated that it is not clear on the current merchant position regarding Visa Debit interchange:

> *"In their most recent submissions the merchants were silent on whether there should be a standard for Visa Debit interchange." (page 28)*

The AMPF has stated that the Visa Debit card, when used at the point of sale, provides almost identical functionality to an EFTPOS card, and there is no justification for a different interchange rate. The Visa Debit card in many cases is also an EFTPOS card and either the EFTPOS interchange fee or credit card interchange fee can apply to the same transaction with the same card, depending solely upon whether the cardholder presses the [Credit] button on the PIN pad.

Merchants should not have to pay for scheme fees or higher fraud rates when the issuers have deliberately chosen the Visa Debit product over the EFTPOS product. If the issuers believe the Visa Debit card is a better offer for their customers then they can recover any additional costs from the cardholders. These cardholders will then choose whichever card they prefer. The free market will decide.

Notwithstanding the above, the merchant position is that there is no need to have a standard to determine either EFTPOS or Visa Debit interchange. The merchants believe that the proposed changes to the Honour All Cards rule are the essential change needed. Once merchants are free to decide whether or not to accept the Visa Debit product, the differential in pricing will be dealt with by market forces.

2.8 Honour All Cards Rule

> *"The third standard addresses the current requirement that merchants accepting Visa credit cards also accept Visa Debit cards." (page 2)*

The AMPF has argued that the Honour All Cards Rule (HACR), in so far as it is an "Honour All Products" rule, is anti-competitive and a breach of the Trade Practices Act, and that visual and electronic distinction of Visa Debit cards is essential.

2.9 International Comparisons

While the AMPF considers international experience can be valuable, it believes it is essential that any comparisons are valid and like is compared with like. It is also important to remember that cultural, legal, regulatory and infrastructure differences must be taken into account.

There are a wide range of interchange arrangements throughout the world - some countries have negative interchange, some have positive, some have none and some, like Australia, have different arrangements for different payment systems. It is important to remember that interchange flowing from an issuer to an acquirer is not uncommon. For example, this is the normal direction of flow for ATM interchange, not only in Australia, but in most countries around the world.

The RBA refers to international experience in a number of places in the Consultation Document. The AMPF wishes to comment on some of the RBA's statements in this area.

Throughout the Consultation Document the RBA states that zero interchange, or a lower interchange rate, would stimulate increased usage of EFTPOS. For example:

> *"the Bank is confident that …. lower interchange fees in the EFTPOS system would lead to more attractive EFTPOS pricing for cardholders or more favourable promotion of EFTPOS by financial institutions." (page 25)*

Further, the RBA has consistently used overseas examples to support this argument. In its *Reasons for Designation*, it states that

> "*the countries with a relatively high number of debit card transactions per inhabitant (the Netherlands and Canada) are those countries with a zero interchange fee"*, followed by the USA "*where interchange fees … flow from acquirer to issuer"* and then Australia "*with an interchange fee that flows from issuer to acquirer, has higher fees, lower fee-free limits and lower usage.*" *(paras. 63-64)*.

The RBA's view that the countries with the highest debit usage are those with zero interchange is not supported by the facts. Of 11 countries reviewed by the RBA in its document *The Changing Australian Retail Payments Landscape* (July 2003), the country with the highest debit usage was New Zealand (with negative interchange) and the country with the lowest debit usage was Germany (with zero interchange). Those countries with zero interchange range from low to moderately high usage whereas those with negative interchange range from moderate to high usage. There is no evidence that negative interchange inhibits usage, neither is there evidence that zero interchange leads to increased use by cardholders.

In Canada there is strong usage of EFTPOS, but the AMPF believes this is due mainly to the opening of access to the system for new entrants rather than the absence of an interchange fee. The Canadian Competition Bureau opened access to the Interac debit system in 1996 and this led to increased competition between acquirers which in turn resulted in lower merchant fees. The opening of access was the spur which led to the strong usage of debit cards, not the zero interchange fee. The interchange fee was zero prior to the opening of access, but growth was very slow.

The Interpay debit system in The Netherlands has also been used by the RBA as an example of an efficient debit program based on its zero interchange fee. As the Governor of the RBA has stated:

> *"There did not need to be one [interchange fee] and in some countries overseas, particularly the ones where EFTPOS works most efficiently - Canada and the Netherlands - there is no interchange fee."* [1]

However, as there was no interchange income for the Dutch banks, they introduced a "network service" fee which was charged to merchants for the processing of debit transactions. As Interpay is the only network which can be used for processing these transactions, merchants had no option but to pay these fees.

In May 2004 the Netherlands Competition Authority (NMa) found the network earned returns of between five times and seven times an acceptable benchmark and handed down fines of €47.2 million (around A$80 million) against the debit network for anti-competitive practices. Interpay (the debit card network provider) was fined €30.2 million and its 8 member banks were fined a total of €17 million.

These excessive fees, which were earned from merchants and which have nothing to do with interchange, were probably a key factor in why the banks did not charge cardholder transaction fees.

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1 *Hansard - House Of Representatives, Standing Committee On Economics, Finance And Public Administration*, 4 June 2004, p.28.

In another international comparison, the RBA states that the growth in signature debit at the expense of PIN debit in the United States has occurred as a result of the higher interchange fees for scheme debit cards and the resultant higher income for issuers. However, there are a number of other factors which must also be considered:

- unlike Australia, PIN pads are not ubiquitous in the USA and many card terminals can only process signature cards. Only around half of the top 250 retailers in the USA have PIN pads, which restricts the usage of PIN debit relative to the scheme based signature debit cards.
- the USA has a number of competing PIN offerings, unlike Australia which has a single national PIN debit system. Some of the US products are scheme based (eg Visa Interlink) and some are privately owned (eg Pulse, Star and NYCE).
- until recently, the Honour All Cards Rule (HACR) also played a vital role in the growth of signature debit, as all merchants who accepted Visa and MasterCard credit cards were forced to accept Visa and MasterCard signature debit cards. Similar rules did not apply to PIN debit products.
- a further factor in the growth of scheme based signature debit cards at the expense of PIN debit was that the card schemes engaged in questionable practices to achieve growth at the expense of non-scheme competitive PIN debit programs. The schemes provided incentives unrelated to interchange fees to push their debit products at the expense of competitors' debit programs (Visa paid one bank US$30 million for this purpose).

None of these international comparisons support the conclusion that a reduction in the interchange fee would result in increased usage of EFTPOS.

The RBA also states:

> *"Some [countries] have used short-term levies on participants to fund incentives for investment in programs to introduce chip cards and terminals. These targeted levies and payments are independent of ongoing interchange fee arrangements." (page 18)*

This is not true. The best-known example of the introduction of "Chip & PIN" technology is the United Kingdom. The merchants, after several years of negotiation with the banks, secured a rebate of 10 basis points off interchange for all transactions conducted at chip-capable terminals. The principle of reduced interchange rates for chip transactions is now firmly established in the UK market. It recognises that merchants should receive financial compensation for their investments in secure point of sale technology. By this method the UK has adopted the same principle which underpins Australia's negative interchange for EFTPOS.

2.10 Market Research

The RBA quotes two pieces of market research in the Consultation Document, one from Australia and one from New Zealand.

> *"The effective price is also frequently mentioned as a factor influencing choice in surveys of cardholders. For example, a survey of <u>New Zealand consumers</u> found that 56 per cent of credit card users listed the interest-free period as a reason to use credit cards while 46 per cent listed other price-related factors such as reward programs and lower transaction costs. Similarly, 61 per cent listed high transaction costs as a reason for not using EFTPOS. A survey commissioned by the Australian Merchant Payments Forum also found that price was important for*

> *Australian consumers. Nearly half of credit card users cited loyalty points or other price-related factors as the reason they used a credit card instead of other payment instruments. Of those consumers that were aware of the price they were paying for a particular transaction, the overwhelming majority chose to use a payment instrument that had zero per-transaction fees." (page 6)*

New Zealand Research

The New Zealand study shows that the age of the cardholder and the value of the transaction are key determinants of whether a credit card or an EFTPOS card is used for a purchase, with convenience and the interest free period being mentioned as the main benefits of credit cards. As the report states:

> *"Major findings are that age, convenience, transaction size and the interest free period" are key factors in consumers' decisions." (page 2)*

Contrary to the RBA's statement, the research results did not in fact show that 56% of credit card users listed the interest-free period as a reason to use credit cards; it showed that 56% saw the interest free period as a benefit of credit cards. This is not the same thing. Unlike the Australian research, the questions asked in the NZ survey were about what respondents saw as the main benefits and disadvantages of credit cards and EFTPOS, not about why they chose to use a particular card. It should also be noted that this was a "prompted" response (ie the respondents were shown a list of benefits) and that it was a multiple choice response (for example 87% said that convenience was a benefit).

Although the RBA states that the New Zealand research showed that "*46 per cent listed other price-related factors such as reward programs and lower transaction costs"*, in fact reward programs are not listed at all among the benefits of credit cards. Even if loyalty programs were seen as a major benefit, it should be noted that, unlike Australia, there has been no reform of credit card interchange in NZ. Accordingly, credit card issuers are still able to fund their rewards programs from interchange income. As the New Zealand report states:

> *"the cost of the loyalty schemes [is] effectively being financed by the merchant service fee and interchange revenue." (page 5)*

Thus, the relevance of the impact of loyalty programs in New Zealand to the Australian environment is low.

With respect to EFTPOS, 61% of respondents said that transaction costs were seen as a disadvantage of EFTPOS, not that they were a reason for not using EFTPOS. Further, the report concluded that:

> *"EFTPOS usage is much higher than use of credit cards, despite the loyalty and transactional pricing incentives given for cardholders to use their credit cards" (page 2)*

In other words, pricing incentives and costs appear to have little, if any, impact on which card New Zealand cardholders use.

Australian Research

The RBA states that the Australian research, commissioned by the AMPF, showed *"Nearly half of credit card users cited loyalty points or other price-related factors as the reason they used a credit card instead of other payment instruments."*

The RBA believes the research supports its view that price issues are a major factor for cardholders in determining which card they will use. In fact, the research shows exactly the opposite.

Although 30% of credit card users did say loyalty points were a reason why they used their credit card more than other cards, only 14% of all card payers in the survey spontaneously mentioned loyalty points as a reason why they used a particular card for the purchase they had just made.

The AMPF does not accept that loyalty points are a price related factor. They are a benefit not a price; consumers pay a fee to receive that benefit.

Only 12% of credit card users and 9% of EFTPOS users said lower fees and charges were a reason why they used that particular card most frequently. More importantly, only a low 7% spontaneously mentioned transaction fees as a reason why they used a particular card for their most recent purchase. Even when prompted, only 10% said *“the fees you would pay for using one card or another”* was a factor in choosing which card to use.

The research clearly shows that only a very small number of cardholders actively decide which card they will use based on the fees they pay.

The RBA goes on to say that *“of those consumers that were aware of the price they were paying for a particular transaction, the overwhelming majority chose to use a payment instrument that had zero per-transaction fees.”* It is difficult to reconcile this statement with the research results. 82% of those who paid by debit card either paid no fees or did not know whether they paid a fee. Only 8% said they paid a transaction fee and knew how much it was.

Following its discussion of the above market research findings, the RBA concluded that:

> *“Both the Australian and international evidence strongly supports the view that price is an important factor influencing payment choices.” (page 7)*

To the contrary, the Australian research shows that price is not a significant factor in consumer choice of which payment card they use.

2.11 EFTPOS In Balance

The RBA states that the costs on the acquirer and issuer sides of the EFTPOS system are more or less “balanced”. Therefore an EFTPOS interchange fee is not necessary.

> *“It is not normally especially relevant for debit card systems. In these systems, the costs of provision are typically more balanced between the two sides of the market and both acquirers and issuers can recover their costs from cardholders and merchants” page 17*

and

> *“The available data do not suggest that costs and revenues of EFTPOS issuers and acquirers are so out of balance that both issuing and acquiring would not be viable without an interchange fee.” (Reasons for Designation, para. 73)*

The RBA now believes that the average cost of an EFTPOS acquirer is around 20 cents per transaction, down 20% from their estimate of 26 cents in the October 2000 “Joint Study”.

However, the RBA admits that it has "less comprehensive" data on EFTPOS issuing costs, and now makes no attempt to estimate the average EFTPOS issuing cost.

EFTPOS accounts are the issuing institution's normal cheque and savings deposit accounts. There are few additional costs for providing an EFTPOS facility to an account holder apart from the cost of the bilateral encrypted communication links to the acquirers. Many EFTPOS cards are "shared function" cards on the customer's credit card. For these cards, there is a lower, shared, cost of issuing the plastic. The cost of fraud is close to zero. There is almost no chance of a bad debt. There are no costs of issuing special card statements. There are no card scheme fees. The issuing cost per transaction is therefore likely to be only a small proportion of the 20 cents that the RBA is now estimating as the acquiring cost.

The AMPF submits that there is no evidence that the acquiring and issuing costs for EFTPOS are "balanced".

2.12 Merchant Costs

> *"Thus, in the case of the EFTPOS system, it has been argued that one reason for the particular flow of fees is that acquirer and merchant costs at the beginning of the system were particularly high and, in order to establish the system, there needed to be payments to them to ensure that they were willing to participate." (page 18)*

The history of the development of the Australian EFTPOS system, as documented in evidence to the Australian Competition Tribunal, does not support this statement. The EFTPOS acquirers originally planned to earn fees from smaller issuers and from merchants. There was no intention to pay merchants any fees at that time. It was not until later that Coles Myer were the first to negotiate a payment in return for providing all their card terminals, all the system maintenance costs, and all the communications network costs (which are still ongoing today).

Negative interchange was put in place by acquirers who had no intention whatsoever of making any payments to any merchants. The RBA should also remember that the majority of Australian merchants today are still paying EFTPOS merchant fees, not receiving a payment.

> *"consumers and merchants can readily assess the benefits they receive from the network already in place and there are no significant establishment costs remaining to be recovered." (page 18)*

Merchants who have invested in their own payments infrastructure are paying costs associated with every single EFTPOS transaction processed. It is not just a matter of establishment costs. If acquirer costs include the cost of card terminals, maintenance, communications links, encryption and so on, then merchants with exactly the same costs should be included in the cost calculation.

> *"The difficulty in estimating absolute costs arises from the lack of data on the resource costs borne by the merchant and consumer in handling the various payment methods." (page 20)*

The RBA has made no attempt to research or investigate merchant resource costs, while it then goes on to speculate as to the nature of these costs:

> *"If anything, merchant resource costs may be slightly lower for EFTPOS given the shorter time it typically takes to complete an EFTPOS transaction compared with a credit card transaction." (pages 20 & 21)*

Merchants must provide a secure encrypting PIN pad and an on-line communications network from the point of sale in order to process any EFTPOS transaction. The costs of providing this infrastructure are significant for those merchants choosing to make this investment. The AMPF has consistently submitted that the cost of the EFTPOS system should include all merchant costs, and no regulatory intervention can be considered until all elements of price and cost are identified and quantified.

2.13 Acquirers Provide Services

> *"A final argument for the existence of interchange fees – one made by the merchants – is that these fees are a payment made by issuers to acquirers (and merchants) for banking services rendered by the merchant." (page 18)*

The AMPF continues to support this argument. The issuers do not have a product to offer to cardholders without access to all the merchant points of sale nationally. Issuers promote access to the EFTPOS network as a benefit of their transaction accounts.

Most Australian merchants today are paying EFTPOS merchant fees, not receiving any payment. Those merchants which receive a payment are getting it in exchange for providing secure payments infrastructure (equipment, software and communications) that the acquirers would otherwise have to provide themselves.

> *"Ending the (acquiring) agreement would mean that the issuer's cardholders were not able to use their cards at merchants serviced by the acquirer. For even the largest issuers, this would be seen as unacceptable as it would effectively mean that they could not offer a full-service transaction account." (pages 19 & 20)*

The AMPF agrees with this statement. This is one very good reason for issuers to pay fees for services provided by acquirers.

> *"The merchants see the current interchange flow as appropriate because they argue that merchants provide services to issuers and their cardholders." (page 26)*

The merchants have actually argued that acquirers provide services to issuers, and the RBA agrees with this proposition (see quote above). Negative interchange is a well accepted method of operation in ATM networks. The costs of acquirers far exceed the costs of EFTPOS issuers and these costs are not "in balance" as the RBA claims. Acquirers and merchants who make large investments in secure payments infrastructure and pay the ongoing costs for each transaction, are providing a service to issuers who otherwise would have no product to offer their customers.

2.14 Fraud

> *"Data published in the Joint Study indicated that fraud losses amount to around 0.07 per cent of the amount spent on signature-based cards. Subsequent data provided to the Reserve Bank … show that … the figure for total fraud-related costs is around double this." (page 21)*

There is no reason why merchants should pay to support a high-fraud system. The issuers can move to on-line PIN-based credit and Visa Debit at any time they choose. The merchants already have the POS infrastructure in place. Visa Debit cards can be, and in some cases are being, used with a PIN at the Point of Sale today. If the issuers choose to make use of signatures for cardholder validation then there is absolutely no reason why merchants should be asked to pay for the resulting fraud through interchange fees.

3. Draft Standards

The AMPF does not believe that interchange fees for debit cards, either EFTPOS or Visa Debit, should be regulated.

We offer the following comments on the draft standards, without prejudice to our position that interchange standards are not warranted and the designation process was flawed.

3.1 Draft Standard No 3

The Setting of Interchange Fees in the EFTPOS Payment System

The RBA has identified a small subset of EFTPOS acquiring costs as “eligible costs”, with no explanation why other acquiring costs are excluded. If a standard were to be introduced, eligible costs should include all costs, including costs where merchants provide infrastructure or services normally provided by the acquirer.

3.2 Draft Standard No 4

The Setting of Interchange Fees in the Visa Debit Payment System

The AMPF has consistently argued that Visa Debit interchange fees should be the same as those for EFTPOS. Accordingly, if an EFTPOS benchmark were introduced, the same benchmark should apply to Visa Debit. However, as previously discussed, the AMPF does not believe an interchange standard is required for either EFTPOS or Visa Debit.

3.3 Draft Standard No 5

The “honour all cards” rules in the Visa Debit and Visa credit card systems and the “no surcharge” rule in the Visa Debit system

As previously noted, the AMPF supports the concept of an “Honour All Issuers” rule and opposes the concept of an “Honour All Products” rule.

The AMPF therefore supports the right of merchants to surcharge Visa Debit transactions and to refuse to accept Visa Debit cards while accepting Visa credit cards.

Visa Debit cards should be identifiable as such, both visually and electronically, to:

- issuers,
- acquirers,
- merchants, and
- merchant principals.

Separate reporting on Visa Debit should be made available to merchants for both merchant service fees and fraud.