

REFORM OF EFTPOS AND VISA DEBIT IN AUSTRALIA

**Response to RBA's
Reform of the EFTPOS and Visa Debit Systems in Australia, a Consultation
Document – February 2005**

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ABN 33 007 457 141

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Executive Summary

Westpac substantially agrees that the proposed interchange reforms for EFTPOS and Visa Debit will result in public benefit. In regard to the question of whether the Honour-All-Cards rule should be amended, it is less clear that net public benefit will result. Evidently the amendment will result in a slight increase in choice for merchants, but on the evidence presented, this does not outweigh the reduced certainty faced by cardholders.

1. EFTPOS Interchange Standard

The preferred Option (iv) appears to be a good balance between improving the efficiency of the payments system and good regulation. It allows interchange partners to negotiate an interchange rate up to a maximum calculated by a standard, as set out in proposed Standard No. 3. The rationale for the proposed standard is strong.

A potential practical difficulty with proposed Standard No. 3 lies in the negotiation process. Given that EFTPOS is actually a series of bilaterally linked networks, the implementation of a non-zero maximum rate will require negotiation between link partners. An arbitration method should be considered. Perhaps one as simple as; “no interchange is to be paid unless the parties agree to an amount within the Standard”, would make proposed Standard No. 3 more workable.

2 Visa Debit Interchange Standard

Westpac agrees that Standard No.4 is an efficient regulation and it addresses the outlined issues with Visa Debit interchange.

3. The Honour-All-Cards Rule

Westpac’s view is that there is further consideration required before any standard on Honour-All-Cards is finalised. We have concerns with the rationale used to reach RBA’s current view and it appears that the arguments against the Honour-All-Cards rule (especially as regards Visa Debit) have not taken into account the impact of the proposed Standard No.4. Our view is that a fuller consideration will lead to a better view on the public interest of the Honour-All-Cards rule.

Rationale Used to Reach Conclusion

The Consultation Document considered two options aside from the “do-nothing” option. The first was to require Visa Debit cards to be recognisable visibly and electronically. The second option added the requirement that the Honour-All-Cards rule would not apply to Visa Debit.

The first option was rejected on the grounds that the impact would be limited because, as most merchants do not currently surcharge (and even fewer differentially surcharge), very few will do so under this option.

The second option, where Visa Debit cards are visibly identified and the Honour-All-Cards rule is amended, was preferred in the Consultation Document. However it is difficult to see how there would be much difference from the first option. If the conclusion is that most merchants will not surcharge under the first option, there seems to be no reason to expect that those same merchants would take the more drastic step of choosing not to accept a class of cards.

Arguments do not Take into Account Standard No.4

In Section 3.2, it is stated that “merchants have repeatedly told the Bank that they would rather not accept the Visa Debit card on its current terms”. It should be pointed out that, provided Standard No.4 is accepted, the Visa Debit card will be on different terms than today. That is, a lower interchange rate will be payable by the acquirer. The impact of this will be to drive MSFs lower for those merchants that accept high volumes of Visa Debit cards.

Later in Section 3.2 RBA points out the distortions caused by a combination of the existing interchange regime and Honour-All-Cards rule. Of course this distortion will be greatly diminished on the implementation of Standards 3 and 4.

Other Public Benefits of the Honour-All-Cards Rule

There is a public benefit in certainty and simplicity of rules around payments. In our view, removal of the Honour-All-Cards would decrease that benefit.

Conclusion

Given the limited benefit of amending the Honour-All-Cards rule as proposed, the reduction of the distortion caused by the implementation of standards 3 and 4, and the reduced cardholder utility of the proposal, our view is that the proposed amendment to the Honour-All-Cards rule would result in a lessening of public benefit.

Implementing Standards 3 and 4 and mandating that Visa Debit cards are visibly and electronically identified seems to capture the similar levels of public benefit while not attracting the downside of reduced cardholder utility.