



# AFTA Submission to the Reserve Bank of Australia

## Review of Retail Payments Regulation

**FEBRUARY 2020**



**ATAS**  
travel accredited

**afta**  
AUSTRALIAN FEDERATION  
OF TRAVEL AGENTS

**afta**  
CHARGEBACK SCHEME  
**ACS**

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## Executive Summary

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Australians love to travel, and in 2019 Australian travellers spent over \$46 billion on international travel, representing the largest import sector of the Australian economy and maintaining this position for over 10 years<sup>1</sup>. In fact, the Australian travel sector experienced YoY growth of 8.6%, and has maintained growth of 7.2% over the past five years.

Australian travel agents operate in a highly competitive global market, offering competitive electronic payment options for Australian consumers. Over the past years, the recent increase in competition from international domiciled businesses has seen a marked reduction in a travel agents's ability to voer additional costs as a result of regulation in Australia.

The Australian travel sector contains businesses both large and small, ranging from ASX listed companies, including Flight Centre Travel Group Limited (FLT), Corporate Travel Management (CTD) and Helloworld Travel Ltd (HLO); and small to medium sized travel agency businesses located in both metropolitan and regional areas of Australia. There are in fact more travel agency locations throughout the country than there are Australia Post office outlets.

AFTA's primary concern for its constituents is to ensure a level playing field between Australian travel agent businesses, which are in direct competition for business with international operators. Any changes to the current system, or additional regulation that the RBA proposes must be viewed from a global perspective, not just a domestic one.

AFTA appreciates the opportunity to comment on the *Review of Retail Payments Regulation: Issues Paper*, and wishes to thank the Reserve Bank of Australia for allowing stakeholders to provide submissions on these issues.

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<sup>1</sup> Australia's Trade in Goods and Services 2019 <https://dfat.gov.au/trade/resources/trade-statistics/trade-in-goods-and-services/Documents/australias-goods-services-by-top-25-imports-2018-19.pdf>

## About AFTA

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The Australian Federation of Travel Agents (AFTA) was founded in 1957 to:

- ) Establish professional standards for travel agents;
- ) Stimulate and promote travel both domestically and internationally;
- ) Bring together those acting as intermediaries in the distribution of travel-related services to enhance service standards and improve business operations; and
- ) Build strong working relationships with suppliers and consumers of travel-related services.

As the peak travel industry body in Australia, AFTA represents the majority of travel agents including all of the major travel agency groups. AFTA members service leisure and corporate travellers, transacting in both a retail and online transaction model.

AFTA's membership accounts for approximately 80 percent of Australia's travel intermediaries that control more than 96 percent of travel intermediary turnover. It also has a substantial base of associate members, representing non-intermediary sectors of the travel-related services industry.

AFTA administers Australia's only accreditation scheme for travel agents and travel wholesalers, known as the *AFTA Travel Accreditation Scheme (ATAS)*. ATAS has been operating since July 2014 and has been endorsed by all state and territory jurisdiction consumer affairs and fair trading departments, following the deregulation of the eight separate legislative regimes governing travel agents from state and territory jurisdiction. ATAS accredited travel businesses must comply with a set of strict criteria outlined in the ATAS Charter and abide by the Code of Conduct which has been modelled on the ACCC voluntary code of conduct benchmark.

AFTA represents the interests of its members on many local and international associations, committees and boards, to promote the benefits of inbound and outbound travel. AFTA also contributes significantly to the Australian domestic tourism industry by taking leadership on many challenges and engaging with like-minded industry representative bodies.

AFTA members are committed to maintaining Australia's world class travel industry. In particular, ATAS accredited travel agents strongly believe in a thriving domestic tourism industry, where more and more Australians enjoy holidaying at home. In 2019, ATAS had over 2,800 accredited locations throughout Australia, representing close to 1,400 Australian businesses.

## Consumer payments in the travel industry

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Travel agents in Australia transact over \$27 billion in Total Turnover Value (TTV) via electronic payments per-annum, which is nearly 89% of the TTV for the entire industry. Electronic payment through the use of a payment card (broadly comprising eftpos, debit and credit cards) is the most common payment method used by consumers to purchase travel through a travel agent. Importantly, travel purchases through a travel agent is done so on average between 70 and 100 days before the product is consumed, representing a far greater prepayment period than traditional retail. For the travel agent merchant, this results in an inequitable risk as at any given time 20% of the industry's TTV is subject to chargeback risk, primarily on account of end supplier insolvency throughout this period.

This risk is unique to the travel industry because even though, in almost all cases, the travel agent will have fulfilled their obligations to the customer by booking and paying for the product, the travel agent will remain exposed to the risk of being required to repay the customer (via the chargeback system) monies on-paid to an end supplier who is not able to perform their obligations. This has meant that the ability of travel agents to surcharge is critically important.

Australian travel agents have low competitive surcharge rates; AFTA member surveys reveal approximately 1.5% for Visa and MasterCard and 2% for Amex and Diners. Since the introduction and growth of options in electronic transaction payment methods, the Australian travel sector has seen significant growth in the volume of bookings paid by electronic payment methods by consumers. Additionally, there has been an increase in the use of platinum or premium cards driven by the auxiliary products offered by card issuers such as free travel insurance and increased award points per dollar spent.

# Response to issues raised by the RBA

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## Are the existing access regimes working effectively?

AFTA believes that additional regulation in retail payments should only be imposed if there are clear market failures and should not impact competition, innovation and consumer choice. Currently, AFTA is not aware of any evidence of market failure. We believe that not all impacts from the Previous Review have been fully realised and it is too soon to consider further significant changes to credit card regulation.

Since the Previous Review, there have been several developments in the payment industry including the launch of the New Payments Platform (NPP) with participation in this continuing to evolve, introduction of the Consumer Data Right (CDR) and a range of industry led initiatives to support the ongoing security and resilience of the Australian payment system.

There have also been several other regulatory changes affecting the retail payments landscape including further legislative changes regarding credit card practices, and review related to lending, loyalty, data and privacy. Each of these impact the resources and investments available to implement further innovations.

AFTA is of the view that the current regimes in place are working effectively and functioning well.

## Interchange Fees

In the travel industry, a major issue for travel agencies occurs when the consumer purchases a travel package using an international credit card which falls outside of the interchange fee regulation. Whilst AFTA submits that regulation is needed to ensure Australian businesses are not overcharged by international issuers, we strongly believe that at present there is no case for changes to the current interchange standards.

There is no economic basis for concluding that an interchange fee of zero is better or worse for society. The Productivity Commissions argument that banning interchange fees would bring with it the benefit of an increase in the usage of lower-cost payment methods is fundamentally flawed. This ignores the benefits that different payment methods offer cardholders and merchants and the fact that society at large is moving away from cash.

It has been just over two years since implementation of reforms from the Previous Review, and it is too early to assess the full effect of these reforms. In addition to this, there has been no market failure. In fact, merchant services fees have generally been declining since the RBA first regulated interchange.

AFTA asks that the RBA not make any further changes to credit interchange. The payments industry is undergoing rapid and fundamental change through the emergence of innovative technologies and payment methods. Imposing further regulation will prove distortive and risks stifling innovation.

## **Is the surcharging framework working well?**

AFTA's longstanding position is that merchants should be able to surcharge. Surcharging for intermediaries is a fundamental aspect of a travel agent business model and one that consumers accept. This is because of the omni-channel approach that consumers use, overall margins in the sector are significantly lower than those in 'direct sales' such as retail. In narrowing the cost of acceptance to limit excessive surcharging intermediaries such as travel agents are being asked to cover costs associated with a consumers' choice to use a credit card.

AFTA's assessment is that the current surcharging framework is functioning well. It is standard practice for Australian travel agents to provide a number of different payment options to Australian consumers. If a business chooses to apply a surcharge to recover the cost of accepting more expensive payment methods, then they are also able to ensure customers are aware of cheaper options to make a payment. Typically, Australians who purchase travel through a travel agent have at least two fee free payment options (generally cash and eftpos/debit card).

## Conclusion

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AFTA wishes to thank the Reserve Bank of Australia for the opportunity to provide a submission to the *Review of Retail Payments Regulation: Issues Paper*.

In this changing environment, AFTA asks that the RBA not impose further regulations that may increase the business costs and/or levels of risk for Australian travel agents. Australian travel agents operate in a highly competitive market and as a result offer competitive electronic payment methods for Australian consumers.

AFTA would welcome the opportunity to meet with the RBA review team to further discuss any aspect of our submission or the working environment in which the current system operates as it relates to travel agents.