



RESPONSE TO:

**A STUDY OF INTERCHANGE FEES AND
ACCESS**

PREPARED FOR RESERVE BANK OF AUSTRALIA

2 February 2001

1. SYDNEY WATER CORPORATION

Sydney Water provides water, sewerage and in some cases stormwater drainage services to 3.9 million customers. Its area of operation, totalling almost 13,000 square kilometres, extends from the Hawkesbury River in the north to Gerroa in the South, and from the Pacific Ocean westward to Mount Victoria in the Blue Mountains.

2. BILLING

Sydney Water issues customer bills to property owners once each quarterly period except for industrial and large water users who are billed on a monthly basis.

Where a property is tenanted or leased, the bill is issued to the property owner or agent who is responsible for its payment under the terms of the Sydney Water Customer Contract. Sydney Water does not bill tenants of properties.

Each year, Sydney Water issues more than 7 million bills and in 1999/2000, collected \$1.1 billion in the course of its operations.

3. PAYMENT OPTIONS

Sydney Water has multiple payment options and various payment methods for its customers. An analysis of payment options is detailed below.

CUSTOMER PAYMENT OPTIONS

SERVICE	%	CASH	CHQ	EFTPOS	CR. CARD
Agency (counter)	46%	✓	✓	✓	–
Customer Centre	4%	✓	✓	✓	✓
Telephone (IVR)	23%	–	–	–	✓
Mail	11%	–	✓	–	–
B-Pay	7%	–	–	✓	✓
Internet	1%	–	–	–	✓
Direct Credit	1%	–	–	–	✓
Direct Debit (NEW)		–	–	✓	–
Bulk Payments	7%	–	✓	–	–
	100%				

Direct Credit is our term for ongoing customer authorisation to process a payment by credit card, similar to direct debit.

Bulk payments are payments by cheque for selected customers who own multiple properties eg: Local Councils.

CREDIT CARD PAYMENTS

Credit card payments comprise 28% of all quarterly payments and the percentage is steadily increasing each quarter.

OPTION	Volume(QTR)	%
Customer Centre	11,000	1%
Telephone (IVR)	350,000	23%
B-Pay	24,000	2%
Internet	12,000	1%
Direct Credit	14,000	1%
Total	411,000	28%

The figures are all based on the quarterly period to 30 September 2000.

4. **CREDIT CARD TYPES**

Sydney Water accepts Bankcard, Mastercard & Visa but does not accept Amex, Diners or Bartercard. For credit cards we impose a limit of \$1000.00 per payment but the banks are uncooperative in enforcing this limit except through B-Pay.

5. **MERCHANT ACQUIRING SERVICES**

Sydney Water entered into an agreement with State Bank of NSW (later Colonial Bank) for merchant acquiring services from 17 November 1986 to 31 December 1999. Since January 2000, St George Bank has been the supplier of merchant acquiring and other banking services such as B-Pay, EFTPOS and Direct Debit. St George Bank was the successful tender in an open tenderer process.

PAYMENT OPTION COSTING

Only 11% of payments are collected in-house: those collected in Customer Centres plus the bulk payments. All other payment processing is outsourced and the service providers charge a transaction fee plus bank costs are applicable depending on whether the payment is a credit card or debit transfer service. A comparison of costs for the average customer payment of \$172.00 is shown below.

Payment Type	Bank Charge & Transaction Fees
Credit Card Telephone	\$2.61
B-Pay (Credit Card)	\$2.54
Internet	\$2.54
Direct Credit	\$2.32
B-Pay (Debit)	\$0.67
Direct Debit	\$0.35

For the 2000 calendar year, Sydney Water collected approximately \$280 million in payments by credit card and in addition to transaction fees for suppliers, merchant acquiring fees cost \$3.6 million. The same transactions if processed as EFTPOS or direct debit would have cost around \$172,000.

6. INTER BANK COMPARISON OF COSTS

In November 1999, Sydney Water advertised a tender for merchant acquiring and other payment related services. The objective of this process was to enable Sydney Water to obtain best prices for payment related bank charges. All tenderers (Banks) were asked about options to limit the cost of merchant acquiring services.

Some of the options proposed by us included:

- A maximum fee payable over an agreed amount
- Stepped percentage rate charged for larger payments
- Enforcing our \$1000 maximum payment limit
- Flat fee in lieu of a percentage.

The response from all banks was negative to each option.

The range of merchant acquiring fees proposed by the various banks fell between 1.29% and 1.4% for telephone and mail authorisation with some slight discounts for across the counter authorisation when the credit card was swiped.

7. PAYMENT LIMITS

Sydney Water has a credit card payment limit of \$1000. This applies whether the payment is made in person (with card), over the telephone/internet, direct credit or B-Pay. Apart from via B-Pay, all banks are reluctant to enforce our maximum limit and the banks attitude is that it is a biller responsibility.

Sydney Water has many customers whose service charges are much greater than \$1000 and in order to gain the loyalty points offered on credit cards some customers make multiple payment of \$1000 and bypass the limit.

One recent incident concerned a customer who wanted to pay \$1 million on credit card. The bank was happy to authorise the card and capture a fee of \$13,000, (but Sydney Water refused to process the payment).

8. PERCENTAGE RATES FOR MERCHANT FEES

Some examples of customer bills and credit card costs are shown:

Bill Amount	Bank Fee
\$10	\$0.13
\$100	\$1.30
\$1,000	\$13.00
\$10,000	\$130.00
\$100,000	\$1,300.00

All these payments take the same time to authorise and cost the same to operate. Each of these payments if processed by a debit transaction would cost less than \$1.00.

9. CONCLUSION

There is no justification in applying a percentage to the value of the payment to determine bank fees. For major utility billers, such as Sydney Water, it means we are funding the cost of the loyalty programs attached to credit card usage and applying this cost to essential utility services.

Merchant acquirer fees should be flat fees based on the actual cost to banks for payment processing plus reasonable profit margins.

Please contact Sydney Water for any further information that may assist in your consideration of this matter.

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