

Friday, 13 September, 2002

Payments Policy: EFTPOS Reform  
Reserve Bank of Australian Consumers' Association GPO Box 3947  
Sydney NSW 2001

EFTPOS@rba.gov.au

## **Options for EFTPOS Interchange Fee Reform Submission**

### **Introduction**

The ACA is an independent not-for-profit, non-party-political organisation established in 1959 to provide consumers with information and advice on goods, services, health and personal finances, and to help maintain and enhance the quality of life for consumers. Independent from government and industry, it lobbies and campaigns on behalf of consumers to advance their interests.

This review and reform process is a useful opportunity to examine the inefficiencies and inappropriate costs associated with the current design and operation of the EFTPOS in Australia.

As part of an overall reform agenda, which has already seen the thorough examination of the credit card payment system, ACA anticipates payments methods which are governed and characterised by greater transparency, accountability and fairness.

ACA therefore welcomes the opportunity to contribute to this process, the outcomes of which should implement these principles, in the interests of the primary stakeholder in these reforms, consumers who use EFTPOS.

### **Executive Summary**

As they currently stand, EFTPOS arrangements contravene the principles of transparency, accountability and fairness in the following ways:

*Transparency:* As with credit cards, the interchange fee for EFTPOS has disguised true pricing signals for participants in the system. Moreover, there is little justification for the direction of the payment of the fee.

*Accountability:* Fees which remain high, despite the expansion of the payments system, or cost reductions.

*Fairness:* The complexity and costs which operate as barriers to new entrants and the competitive pressure they might bring to the fee level.

The Working Groups Issues Paper proposed three possible reforms. Of these, ACA supports the abolition of the EFTPOS interchange fee altogether. This will not only remove the inefficiencies

and barriers in the current system, but is also the best means of restoring fairness to it, in line with reforms to other payments systems.

In the alternative, ACA may accept the redirection of interchange fee payment from the acquirer to the issuer, in line with overseas jurisdictions, and to better reflect where the costs might lie in the system.

At this stage, ACA does not support the other proposals contained in the Issues Paper, such as bilateral agreements, multilateral default rates or the retention of an acquirer-cost model, on the grounds of insufficient evidence that these are likely to address the problems outlined above, or deliver benefits for consumers.

However, ACA looks forward to ongoing discussion around these issues, and reforms proposals, as part of the wider review and reform of the Australian payments system.

## **Removal of the Interchange Fee**

ACA proposes the removal of interchange fees from the EFTPOS system. This reflects the original proposal of the ACCC/RBA Joint Study and arrangements in comparable overseas jurisdictions. It has the advantages of simplicity, reduced costs and the removal of inappropriate pricing signals which have seen the growth in other payments systems (notably credit cards), to the detriment of EFTPOS.

These are not merely advantageous for consumers, who will be likely to appreciate the cost reductions per transaction, but also current and potential issuers, impeded by or barred from entering the system by these costs.

Removing the interchange fee altogether may leave some issuers with unrecovered costs, however, ACA believes the greater advantages of simplicity in promoting new entrants and preventing the emergence of new inefficiencies, warrants this.

If issuers or acquirers move to recover these costs, or lost profit through direct fees, this should be subject to a stringent monitoring regime, to prevent profiteering, and ensure the greater transparency engenders the competitive pressure currently missing from the system.

Acquirers have argued that the costs of developing and growing the EFTPOS system justify the continued imposition of a fee to issuers. ACA believes these costs have long been recovered, and that the widespread acceptance of EFTPOS, both by merchants and consumers, is sufficient incentive for its continued promotion. The reduction of costs for issuers and smaller participants is likely to provide further impetus to this maintenance and development of the system.

Arguments regarding the changed functions of acquirers with respect to EFTPOS also justify the continued imposition of the interchange fee. This has centred on the the 'cash-out' facility now offered by many merchants. ACA does not accept the replacement of bank functions by agreement between merchants and banks as sufficient cause for the retention of the interchange fee across the system as a whole.

## Interchange Based on Issuer Costs

ACA prefers the no-fee model, however, may be prepared to consider the reversal of the current acquirer-cost charging, subject to several conditions.

### *Standard Multilateral Agreement on a Cost-Recovery Fee*

Providing for a cost-based standard multilateral agreement will avoid the inefficiencies associated with bilateral agreement, which have not only proved inflexible and inconsistent, but have operated as barriers to new entrants. As with the RBA's credit card reforms, this standard should incorporate only the independently-assessed issuer costs directly associated with providing the service to merchants and acquirers, rather than the full list contained in the Issues Paper.

### *ACCC Authorisation and periodic review*

As the setting of such a standard is likely to require financial institution collective price-setting ACA considers it of benefit that these arrangements be subject to ACCC approval under the net public benefit test to test for negative impacts on competition. Moreover, they should be reviewed on a regular basis, to overcome the replication of current inflexibility, and data on costs, charging and revenue should be incorporated into the Payment System data collection and publication to enable ongoing monitoring and review of the system.

### Timeframe

ACA appreciates this reform process is currently taking place outside the Reserve Bank's designation powers, and hopes this translates to an expedited implementation of whichever reform is adopted. However, should agreement between stakeholders prove difficult, we would not support the delay in implementation of other reforms, namely the credit card changes. While we would welcome the concurrent implementation of these payments reforms to avoid possible distortions, this should be an impetus for the resolution of EFTPOS reform, not the stagnation of credit card reform.

## Conclusion

ACA has welcomed the opportunity to put forward our preferred reform options for EFTPOS interchange, and we look forward to further consultation and participation in this process. In the wake of credit card reform, all participants should understand the increased interest among consumers in this policy area, and their representation in this process is crucial to their confidence in its outcomes.

For further information, or discussion of any of the matters raised in this submission, I can be contacted on 02 9577 3349, or at [cwolthuisen@choice.com.au](mailto:cwolthuisen@choice.com.au).

Yours sincerely

Catherine Wolthuisen  
Senior Policy Officer, Financial Services