

21 February 2005

Dr John Veale
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Dear Dr Veale

Submission (supplementary No 3) to RBA – EFTPOS – AMPF Position on VISA Debit

Further to our supplementary submission dated 9 November, the following is a summary of the AMPF's position regarding Scheme Debit.

The AMPF provided submissions to the RBA on the subject of Visa Debit on 27 January, 2 April and 11 June 2004. In each of these submissions, the AMPF has argued strongly that there are significant problems with the current operation of the Visa Debit product in Australia and that merchants are paying excessive and unreasonable fees for accepting these cards compared to the cost of accepting EFTPOS debit cards. This was recognised by the RBA and the ACCC more than four years ago, when they commented that issuing institutions were being over compensated for what was no more than a debit card transaction (Joint Study, para 6.3). Whilst the detail was provided in our submissions, some of the key points are summarised as follows.

The key principle of the AMPF position is that Scheme Debit is a debit card and should be treated no differently.

1. Visa debit, when used as a debit card, offers cardholders and Australian merchants no more benefits at the point of sale than do EFTPOS cards. Indeed arguably they offer less benefit as they cannot be used to obtain EFTPOS cash out, are less convenient and secure (as Visa debit is signature based) and take longer to process at the point of sale.

It follows then that we do not see any justification for the level of current multilateral credit card interchange fees or the methodology that is currently charged for Visa debit card transactions, compared to the bilaterally negotiated EFTPOS interchange fees. In our view these multilateral interchange fee arrangements between the banks breach the Trade Practices Act; the ACCC commenced legal proceedings with respect to the same arrangements in the context of credit cards back in late 2000.

2. We have also raised our opposition to the Honour All Cards Rule (HACR) as it forces all merchants in Australia to accept all Visa branded card products regardless of price and functionality. This “rule” must be abolished. In our view this arrangement also breaches the Trade Practices Act.
3. In addition, Visa Debit cards cannot be distinguished visually or technologically from Visa Credit Cards. This is not the case in many other countries, including the UK. Australian merchants who are happy to accept Visa Credit Cards, but would wish to surcharge or not accept Visa Debit cards, are unable to do so. Our desired outcome would be for a pre-determined range of BIN numbers to apply to Visa debit and for cards to be visually identifiable to give merchants the choice as to whether they wish to accept these cards. Most recently, the settlement of the Wal-Mart case in the USA has resulted in a change to the Honour All Cards rule there. Further detail on these examples was provided in our 11 June 2004 submission.
4. The AMPF also raised serious concerns with respect to the higher risk of fraud associated with Visa Debit being signature-based product rather than a PIN-based product such as the domestic EFTPOS card. Visa and its issuer members have declined to offer PIN validation in the domestic market on these cards, even though secure PIN Pads are available at almost all merchant card terminals in Australia today. All Visa Debit cards are issued with a PIN so they may be used at ATMs. The same PIN should be used for all point of sale transactions made with these cards, with processing through the EFTPOS network. It is the AMPF’s understanding that the PIN on these cards, along with current “combination” cards (which are able to be used as both standard EFTPOS debit cards or Visa debit cards) may be phased out in future, forcing debit transactions (for cards carrying a Visa logo) through the signature based processing system, increasing the cost and fraud risk.

It is unconscionable to require merchants to pay a merchant fee which includes the cost of this fraud, when it is accepted knowingly by the card issuers and could be avoided. This cost should be borne solely by the card issuers who have allowed it through their preference for a more insecure method of cardholder verification. Accordingly, the AMPF is strongly of the view that Visa Debit card issuers should bear the costs associated with any fraud resulting from encouraging their cardholders to conduct signature-based debit transactions in preference to PIN-based transactions at the point of sale.

A number of other concerns were also raised in our submissions, including concerns that debit products from other card schemes and other products such as scheme branded gift

cards may be introduced on the same commercial principles which currently apply to Visa debit. Also the AMPF raised concerns with respect to the misleading advertising used by some Visa debit issuers, the inadequate level of reporting of Visa debit card transactions, the possible surcharging of Visa debit cards and the applicability of the new SCCI arrangements to Visa debit.

For further details of these issues please refer to our earlier submissions.

The designation of Visa Debit on 23 February 2004 was therefore seen as a positive step towards action being taken to prevent these problems from continuing. Unfortunately, no action has been taken in the twelve months since designation and merchants continue to pay millions of dollars in fees they should not be paying.

The position of the AMPF is clear. Standards should be set that prohibit the HACR as it applies to products, and mandate that Visa Debit cards be visually and technologically distinguishable from Visa Credit Cards. AMPF does not support the setting of an interchange fee standard; if the changes listed above occur, the market will deal with the current overcharging of merchants by Visa.

The AMPF is also raising with the ACCC, its concerns that the current Visa Debit price fixing arrangements, and the imposition of the HACR on markets both breach the Trade Practices Act.

Sincerely,

A handwritten signature in black ink, appearing to read 'Chad Gates', is written over a light grey rectangular background.

Chad Gates
On behalf of the AMPF