



**Submission to The House of Representatives Economic Committee  
Review of Payments System for Credit, Debit and ATM Fees**

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Monday, 1 May 2006

**Introduction**

The Australian Merchant Payments Forum is a group of merchants<sup>1</sup> that formed in 2003 to represent the views and interests of merchants in the payments system.

Merchants play an essential role in this sector:

- In 2004 merchants paid in excess of \$1.5 billion in fees to banks for credit and debit card merchant facilities
- Half of all point-of-sale transactions are processed by merchants who own and operate their own payments infrastructure
- Merchants provide well in excess of \$10 billion to consumers annually in cash-out, providing an essential service to consumers, in particular in the light of bank branch closures in recent years.

The AMPF welcomes the Committee's interest in these issues – the way that fees and charges flow in this sector have important implications for merchants, consumers and the wider economy.

The timing of these hearings is good – because the deliberations can help inform the RBA's own review of the payments system in 2007. AMPF members already work closely with the RBA to ensure merchants' and consumers' interests are represented. However members also consider that there are a number of key issues that impact on merchants that the RBA is yet to address. Those issues are summarised in this submission. The AMPF looks to provide further clarification at the forthcoming hearing.

**The regulatory approach**

The AMPF appreciates the complexity of the task the RBA faces in trying to achieve its stated aim of creating efficiency and transparency in the payments system.

However, in our view, there has never been a sufficiently clear explanation from the RBA about precisely what it perceives is an efficient and transparent system, how it would be achieved and how would success be measured. As a consequence, the RBA's approach to regulating the payments system seems piece-meal and inconsistent since it began its reforms in 2002. For example different interchange rates have been set for EFTPOS debit, Scheme Debit and credit card transactions although infrastructure requirements are largely the same.

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<sup>1</sup> Its members are: Australia Post, the Australian Retailers Association that represents some 12,000 retailers, BP, Bunnings, Caltex, Coles Myer Ltd, Mitre 10, Mobil, Woolworths.

The AMPF believes the RBA needs to articulate its vision of the bigger picture – where its reforms are headed, a clear strategy, an idea of ‘what success looks like’ and the timeframe - to create some business certainty, given potential impacts on infrastructure investment and consumers from its reforms.

Does the RBA’s view of an efficient and transparent system envisage there are no interchange fees? If yes what are the impediments and what is the schedule? If no, what is the end goal?

We look to the RBA’s review in 2007 to lay the groundwork for a clear description by the RBA of what it is trying to achieve and how, by:

- Assessing where the payments system is at now – with data that is current, rather than relying on the 2000 Joint Study, which it has used as a basis of its reforms until now
- Addressing the distortion and lack of transparency in the payments system caused by credit card interchange fees
- Including merchants’ investment and contribution to the operation of the payments system
- Taking account of the impacts on merchants and consumers of the reduction in interchange for EFTPOS, including evidence of lower bank fees for cardholders.
- Accounting for the differences in the regulatory approach to different card types and ATMs
- Including all payment methods in its review, eg. ATMs, three-party schemes (Amex/Diners credit and charge cards) and B-Pay.
- Addressing the need for an effective competition regulator in the payments system and provisions in the Payments System Act (1998) for Merits Review via the Australian Competition Tribunal.

The AMPF also believes that the RBA’s focus on wholesale interchange arrangements is too narrow. Consideration for a wider competition review of the payment card market in Australia needs to be given such as that recently released by the European Commission.

### **Balancing fees and charges**

In our view, there needs to be a balance between the charges and fees paid (both by and to) merchants, banks and consumers in the payments system. Achieving the right balance between these charges and fees should maintain effective and secure payment services that enable investment in upgrades and new technology, offer fair and transparent charges to consumers and enable new entrants access. Importantly, consumers should have a clear view of the real costs of the individual payment options they use.

In our assessment, the RBA has not consistently treated the role of interchange fees.

With credit cards, interchange fees were judged to be very excessive and largely the result of anticompetitive fee setting mechanisms. The RBA was very critical (correctly in our view) of the extent to which all consumers were funding the credit card interchange fees as they were buried in the price of

goods and services (like a hidden tax) rather than paid for by credit cardholders, who are the beneficiaries.

The RBA reduced interchange fees on credit cards by almost 50%, but this has only fixed half of the problem. There remains \$350m+ of hidden subsidies that all consumers are funding, not just credit cardholders.

Given the RBA has established a precedent for interchange fees, merchants argued correctly for cost recovery in EFTPOS transactions as merchants fund a significant share of costs for EFTPOS transactions, being the infrastructure of terminals and communications. Further, there was a view in the Joint Study that interchange fees for EFTPOS transactions were broadly in line with costs.

The RBA in its most recent Standard, has denied the opportunity for merchants to substantially recover their costs from financial institutions, thereby forcing merchants to recover their costs in the form of higher prices for goods and services generally. This results in again burying these costs where all consumers pay rather than just the users of the service, ie the bank/EFTPOS cardholder. This is exactly the opposite of what the RBA sought to do with credit cards.

Whilst we believe the RBA's reforms in 2002 reducing credit card interchange fees headed in the right direction, more needs to be done to ensure that costs are transparent to consumers and that there are no hidden subsidies.

Perhaps the most pragmatic solution would be for the RBA to adopt a 'zero interchange for all' approach to all debit and credit transactions. This would remove any distortion in the system.

Submitted by

A handwritten signature in black ink, appearing to read "Russell Zimmerman". The signature is written in a cursive, flowing style.

Russell Zimmerman,  
Chair Australian Merchant Payments Forum

