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The General Manager  
Adjudication Branch  
Australian Competition and Consumer Commission  
PO Box 1199  
DICKSON ACT 2602

## **APPLICATION FOR AUTHORISATION IN RELATION TO EFTPOS INTERCHANGE FEES**

### **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.

ACA welcomes the opportunity to provide a submission on the authorisation of the proposed reforms to EFTPOS interchange. ACA has been involved in the reforms to the credit card payments system, and looks forward to the anticipated improvements in transparency and efficiency.

We believe the proposal to reduce the interchange fee in existing EFTPOS arrangements to zero will deliver similar improvements to the operation of that system. EFTPOS provides a secure, convenient payments system to consumers, and the removal of the interchange fee from that system, in conjunction with the credit card reforms, should deliver clearer pricing signals that those currently received by consumers.

The current distortions have favoured the extension of the credit card system over EFTPOS, leading to the inappropriate loading of hidden costs across a range of pricing structures, ultimately paid by all consumers. In the case of EFTPOS, this has been compounded by the loading of the costs of a fee which is well past its use-by-date into EFTPOS bank fees.

Ensuring consumers receive these clearer pricing signals will require the full transmission of savings from the removal of the fee. ACA therefore recommends that a condition of the authorisation be the accompanying lowering of bank transaction fees.

## Current Arrangements

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.

## Removal of the Interchange Fee

ACA proposes the removal of interchange fees from the EFTPOS system, to be achieved through multi-lateral agreement. 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 stand to benefit from lower transaction costs, but also current and potential issuers, impeded by or barred from entering the system by these costs and by the existing bilateral access arrangements.

While the removal of the interchange will also remove a source of revenue for some issuers and merchants, this loss of revenue must be set against the much higher anticipated savings from the reforms to credit card interchange and within a broader discussion of whether the collection of that revenue can be justified.

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. As we also expect costs to consumers to diminish as a consequence of this reform, demand for access to EFTPOS should increase.

ACA also notes that the infrastructure for accepting EFTPOS transactions is generally the same as that employed for credit card transactions, reducing the likelihood that merchants will discontinue their investment in that infrastructure and accepting capacity.

Proponents of the interchange fee have argued that it is part of cost recovery for additional services provided by merchants in receipt of that fee. This has centred on the 'cash-out' facility. While attractive to many consumers, this is not universally offered or taken up by EFTPOS consumers, though the costs are currently born by all EFTPOS bank customers. 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. ACA also notes this facility provides an

advantage to merchants, who provide an additional, attractive service to consumers, and who are also able to reduce their cash-handling costs.

### **'Public Benefit'**

ACA is mindful of the risks associated with any potential lessening of competition as a consequence of this authorisation of collective fee-setting. But the removal of an outmoded fee structure will have little public benefit if inappropriate costs continue to be borne by consumers.

Australian banks have a poor record in passing on cost savings to consumers, particularly in the area of transaction charges in retail banking, where insufficient competition has facilitated soaring fee levels.

Absent any compulsion, ACA is not confident banks will pass on expected cost savings from the interchange fee removal to their customers. This would produce the undesirable outcome of continued obfuscation of price signals to consumers, who would be unable to appreciate the lower costs of EFTPOS relative to current levels and other payments systems, and would continue to provide a windfall to banks through unchanged EFTPOS transaction fees.

We therefore submit the following must be part of the authorisation, to meet the public benefit test:

### **Price undertaking**

As a condition of this authorisation, applicants should undertake to pass on the net savings of the interchange fee abolition to EFTPOS customers.

### **Price oversight**

In its approval of the CBA/Colonial merger, price oversight was a feature of the ACCC authorisation. We submit a similar process should be implemented in this instance, with a body established to monitor merchant pricing and direct consumer charges for the initial authorisation period, reporting regularly to the public and ACCC. This would not only provide the opportunity for ongoing review of the impact of the reforms, and highlight any problems in their implementation, but would have the advantage of promoting public confidence in the reform process as a whole, by maintaining transparency.

### **Review**

This ongoing monitoring should feed into a review at the culmination of the initial authorisation period, to consider whether costs to EFTPOS customers have fallen and what impact the reforms have had on the use of EFTPOS relative to other payments systems.

### **Conclusion**

ACA has welcomed the opportunity to put forward our preferred reform options for EFTPOS interchange. 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.

The authorisation process provides a valuable opportunity for such representation, and on behalf of ACA, I would be pleased to discuss any matter relevant to this submission. I can be contacted on 02 9577 3349, or at [cwolthuisen@choice.com.au](mailto:cwolthuisen@choice.com.au).

Yours sincerely

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