

File Note

Date: 1 September 2003

Matter: Applications for Authorisation A30224 and A30225

File Ref: C2003/238



12.30pm

Attendees:

Jennifer McNeill Australian Competition and Consumer Commission
(ACCC)

Tim Grimwade ACCC

Joanne Palisi ACCC

Sue Sullivan ACCC

John Gove Transaction Resources

John Gove commenced the meeting by noting that Transaction Resources had acted as an adviser to a number of companies globally – mainly merchants, but also some banks. In relation to payment system reform globally, including the current EFTPOS applications for authorisation, TransAction Resources has acted for merchants and merchant groups. However, the comments he wished to provide to the Commission at this meeting were on behalf of Transaction Resources and not its clients.

Mr Gove noted that as a preliminary matter Transaction Resources considered that it was essential to have a healthy EFTPOS system for all parties to an EFTPOS transaction – merchants, cardholders, merchant acquirers, and card issuers.

Mr Gove noted that Transaction Resources does not consider that there are any public benefits that would flow from a \$0 interchange fee proposal.

Mr Gove stated that Transaction Resources agrees with the position put by the Commission in the draft determination in relation to cardholder price signals, and in particular that it was Transaction Resources' view that under the interchange fee proposal current price signals would be lost. Mr Gove noted that whilst these price signals are limited they are in, Transaction Resources' view, correct.

Commissioner McNeill asked Mr Gove whether he had a view in relation to the potential for anti-competitive detriment to flow from the proposed arrangement.

Mr Gove noted that in his view new entrants to the EFTPOS system would clearly have the effect of promoting enhanced competition within the system. Mr Gove noted however that it is his view that the loss of revenue stream to new entrants through the

\$0 interchange fee proposal will diminish the potential for new entry and therefore the potential for competition to be increased.

Mr Gove noted that he considers access and interchange fees to be separate issues, and in particular access should be considered separately to the current interchange fee proposal. Mr Gove also said that EFTPOS access should not be reviewed by APCA, as its members have a conflict of interest in deciding how and when to open access.

Mr Gove noted that under the Canadian Interac model there is a small processing fee. Mr Gove noted that in his view it has been the opening of access which has increased competition and caused prices to drop in Canada, not the fact there is a zero interchange fee. Merchant service fees have significantly decreased following the opening up of access (typically from about \$0.15 to \$0.05 for large merchants) and during this period the interchange fee has remained unchanged at zero. It is Mr Gove's view that the benefits of access reform would flow irrespective of interchange fee arrangements.

Mr Gove noted that in his view it does not make sense to exclude the network architecture from any review of EFTPOS access – that in fact the current bilateral architecture of the EFTPOS network was the predominant barrier to entry. In response to a question regarding the MoneySwitch presentation, Transaction Resources said it would support a hybrid system providing a primary link to the existing system for new entrants, similar to the model which had been proposed by MoneySwitch.

Mr Gove noted that the current interchange arrangements have provided acquirers and major merchants with an incentive to invest in EFTPOS infrastructure and this is an important reason as to why the Australian EFTPOS system is so successful. Mr Gove noted that the costs of infrastructure are not 'one-off' and that to continue with these ongoing upgrades industry members require a return on their investment. Mr Gove stated that he considers that the interchange fee proposal is likely to lead to a reduction in this investment. It is Mr Gove's view that this will result in only the minimum in infrastructure upgrades being undertaken.

Commissioner McNeill asked whether Mr Gove had a view on the potential for upgrade incentives to be introduced, for example through the switching of risk/cost of fraud?

Mr Gove stated that he did not wish to comment on whether such changes would be effective in Australia.

Mr Gove noted that the Applicants' proposal for zero interchange could lead to 'free-riding' on the infrastructure investment of merchants by card issuers - merchants would have to pay a fee to acquirers for transactions processed through their own card systems but issuers (who have made no investment in the acquiring infrastructure) would not have to pay anything. Mr Gove noted that in the absence of card issuer contributions the EFTPOS system may deteriorate, for example as has occurred in the United Kingdom.

Mr Gove noted that the \$0 interchange fee proposal will not increase the efficiency of the EFTPOS system, it is a cost transfer only. Mr Gove considers however that the liberalisation of access will promote greater efficiency by driving down merchant acquirer costs.

Mr Gove noted that card issuers have gained significant benefits from the EFTPOS system and is concerned that card issuers have not outlined these benefits in identifying the costs to them of participating in the EFTPOS system. These include reduction in paper handling costs, substitution of cheques and branch closures as customers are increasingly moved across to electronic banking.

Mr Gove also noted that while a negative interchange fee for EFTPOS is unusual, it is not unique. Additionally, ATMs globally have an interchange fee that flows to acquirers and as such the flow of EFTPOS interchange fees in Australia are not an anomaly.

Meeting ended 12.55pm.