21 April 2015

Head of Payments Policy Department

Reserve Bank of Australia

GPO Box 3947

SYDNEY NSW 2001

Dear Sir,

***Review of Card Payments Regulation***

First Data Australia appreciates the opportunity to make this submission in response to the Consultation Document issued by the Reserve Bank of Australia “the Bank” in March 2015. It should be noted that First Data is responding from an acquiring standpoint only and wishes to provide its views on the following issues.

*Transparency of Card Payments*

Background:

The Bank noted in its review that there has been a decline in the transparency available to many merchants in relation to the cost of cards, thus hindering their ability to control payment costs. Debit Cards and Credit Cards should be physically distinguishable from each other as per the relevant standard, but this does not assist in a “card not present” environment. Additionally the Card Schemes have introduced a number of premium products that bear different interchange fees. Again, these are generally distinguishable physically (although not as obvious as Debit v Credit), but are more difficult (or in some instances – impossible) to distinguish in the “card not present” environment.

The Bank believes that merchants should have the means to *electronically* identify the differing card types (and thus interchange fee costs) at the point of sale, enabling them to:

* Refuse to accept an “expensive interchange” card;
* Impose a surcharge to at least cover the cost of the interchange fee;
* Advise the customer the amount of the fee being charged by the Acquirer to justify their action.

Response:

Whilst this may appear to be an attractive outcome for merchants, operationally it could prove to be extremely complex, impractical and expensive to implement – in fact it may not even be possible. The initial response would be to implement a BIN (Bank Identifier Number) “look-up” table at each Acquirer’s switch to try and match the card BIN with the interchange fee applicable. However Issuers are now “upgrading” clients’ cards to the next level without changing the card number (and thus the BIN), to avoid inconveniencing customers by having them change PINs and Direct Payment authorities. This therefore prohibits the ability to use BINs to identify interchange fee levels.

Another complication is the growing number of “contactless” cards where the transaction generally occurs immediately (in cases of transactions under $100). This means that the transaction occurs before any contact can be made with the Acquirer’s switch to interrogate any tables etc.

Background:

The Payments System Board (PSB) suggested that merchants should be offered pricing and billing that separately shows the interchange fee and merchant service charges that apply to each brand and category of cards.

Response:

A number of Acquirers already offer the “interchange plus” fee option, which provides merchants with transparency “after-the-fact” ie after the transaction has been effected. First Data believes that this option should be available to merchants but believes that other fee options such as “blended rates” should be available according to merchant preferences.

*Excessive Surcharging*

Background:

A tiered surcharging system has been suggested as an option to stop excessive surcharging by merchants, allowing low-cost system providers to prevent merchants from surcharging, medium-cost providers to limit surcharges to limits set by the PSB and high-cost providers to limit surcharges to the reasonable cost of acceptance. The Bank may target particular cases of excessive surcharging (eg Taxis and airlines) through modifying its surcharging Standard to allow schemes to cap any surcharges that are not percentage-based at some low fixed-dollar amount.

Response:

First Data believes that implementation of a tiered surcharging system would add complexity to this vexed issue and in addition to being difficult to implement, it would also be very difficult to monitor. If, as it appears, there are only a few industries that are attracting criticism for excessive surcharging, it may be more efficient to simply target those industries as suggested.

As card schemes and some Acquirers appear to have been reticent in imposing the current surcharging restrictions due to possible loss of large, profitable merchants, it may be necessary for more direct involvement from the Bank to ensure that this approach is successful.

*Merchant ability to choose transaction routing options*

Background:

The Bank’s paper suggests that merchants should be allowed to choose which network they use to route transactions (usually based on cost).

Response:

First Data is not opposed to merchants choosing which network to use, but equally believes that the cardholder may wish to have this choice. The cardholder chooses a payment card and pays for payment card functionality. The networks offer differing payment limits as well as differing terms and conditions for refunds which an informed cardholder may want to make use of by choosing the network at the point of sale. The routing choice may also dictate which account is accessed and what cost may/may not be imposed due to that choice. Careful consideration should be given to the question whether it is the interests of the consumer/cardholder or that of the merchant that should take precedence at the point of sale regarding the choice of network and transaction routing at the point of sale

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First Data thanks you for the opportunity to provide its views on the Bank’s Review of Card Payments Regulation and would be available to expand upon the content of this submission if required.

Yours Sincerely

John McCann

General Manager