



Abacus
Australian Mutuals

Association of Building Societies and Credit Unions

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Dr Christopher Kent
Head of Payments Policy
Reserve Bank of Australia
GPO Box 3947
Sydney NSW 2001

Sent via: pysubmissions@rba.gov.au

Dear Dr Kent,

Review of Card Surcharging: A Consultation Document

Abacus appreciates the opportunity to comment on potential modifications to the 'no-surcharge' Standards that apply to the credit card and scheme debit card systems in Australia.

We have concerns about excessive surcharging and we support allowing card schemes to limit surcharging.

Abacus – Australian Mutuals is the industry association for Australia's mutual banking institutions: credit unions and mutual building societies. Abacus represents 101 credit unions and 8 mutual building societies. Some 4.5 million Australians are members of a mutual banking institution.

Credit unions and mutual building societies provide a full range of retail banking services, including credit cards and debit cards. All credit unions and mutual building societies are Authorised Deposit-taking Institutions regulated by the Australian Prudential Regulation Authority. Our members are also credit providers and are licensed and subject to the requirements of the National Consumer Credit Protection Act, including the responsible lending requirements.

Abacus brings a card-issuer and card-holder perspective to debates on payments system reform.

We welcome the RBA's review of card surcharging and we support changes to prevent consumers being hit with unreasonable surcharges by merchants. Survey data cited by the RBA indicates that around 10 per cent of surcharging merchants apply a surcharge of 5 per cent or more. A surcharge of 5 per cent is around triple the average merchant service fee.

Merchants have been clear beneficiaries of the RBA's payments system reforms, yet more and more merchants appear to be taking advantage of the RBA's abolition of the no-surcharge rule to gouge their customers.

As noted in the Payments System Board 2010 Annual Report, since the introduction of the credit card interchange fee reforms, decreases in merchant service fees across all four schemes are estimated to have produced cumulative savings to merchants of around \$6 billion.

The report notes that merchant service fees in 2009/10 were around \$1.3 billion lower than they would have been if the merchant service fees prevailing prior to the reforms had been maintained.

It was hoped that all shoppers would have benefited from this reduction in merchants' costs as competition forced merchants to pass it on in lower overall prices. However, the trend of rising surcharges suggests that some merchants have the market power to not only avoid sharing with consumers the benefits of the RBA's payments system reforms but to exploit the reforms at the expense of consumers.

Abacus makes the following comments on the Consultation Document's Summary of Issues:

Is there a case for modifying the Standards to allow schemes to limit surcharges?

Yes, because there is increasing evidence to suggest that it is now becoming more common for merchants to set surcharges at levels that are higher than average merchants service fees. As the RBA notes, this could distort price signals to cardholders.

Ahead of any changes allowing schemes to limit surcharges, Abacus recommends that the RBA should encourage the ACCC to pursue examples of merchants engaging in misleading conduct by claiming that their unreasonably high surcharges reflect the cost of card acceptance.

Is a surcharge cap best implemented by the Board setting a transparent and specific permissible cap that is specified in standards, and may then be imposed in scheme rules? Or, should the Standards allow scheme rules to limit surcharges to an amount that is reasonably related, or equal, to each particular merchant's cost of card acceptance?

Abacus prefers the option of allowing scheme rules to limit surcharges to an amount that is reasonably related to each particular merchant's cost of card acceptance.

Should there be some level of tolerance allowed around any surcharge cap?

No comment.

Is the merchant service fee an appropriate measure of the cost of card acceptance (that can be applied consistently across all merchants)?

No comment.

Should the no-surcharge Standards clarify that, notwithstanding any surcharging cap, scheme rules cannot prohibit merchants from applying a surcharge that is either a blended rate for each card scheme or the cost of accepting each card within a card scheme? Are there alternative ways to allow for differential surcharging?

Abacus supports allowing merchant's flexibility in recovering their costs of card acceptance and allowing consumers the opportunity to exercise choice in response to accurate price signals.

Should the no-surcharge Standards require acquirers to pass on information about the merchant's cost of acceptance for each different card type if it is requested by the merchant? And, for those on the 'interchange-plus' pricing, should the no-surcharge standards require acquirers to pass on information about the weighted-average merchant service fee if it is requested by the merchant?

No comment.

Is there a case for disclosure of the cost of card acceptance by merchants? Or, would it be sufficient for the Bank to collect and publish more detailed data on merchant service fees, such as the range and average of merchant service fees across merchant categories for each card scheme?

No comment.

Thank you again for considering our views on payments reform.

This review of merchants' capacity to recover their card acceptance costs by surcharging again highlights our criticism of the RBA's modification of the Honour All Cards (HAC) Rule. As you know, the Woolworths group last year took advantage of the RBA's changes to the HAC rule and blocked acceptance of scheme debit cards while continuing to accept scheme credit cards. This action by Woolworths, flowing from an intervention into the market by the RBA, remains an unreasonable and unwarranted denial of customer choice.

Please contact Luke Lawler on 02 6232 6666 or Jim Aliferis on 02 8299 9033 to discuss any aspect of this submission.

Yours sincerely,



MARK DEGOTARDI
Head of Public Affairs