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27 July 2011

Review of Card Surcharging

We refer to your request for submissions in relation to the proposals set out in your Document "Review of Card Surcharging: A Consultation Document" issued in June 2011.

JB Hi-Fi was one of the first major retailers to adopt surcharging. Our objective was to neutralise the high cost of premium 3-party scheme cards against what we considered the more reasonable, with reference to the fully absorbed cost of cash, cost of our merchant service fee ("MSF") on Visa and MasterCard transactions. JB Hi-Fi does not support excessive surcharging in any way, however notes that the protection afforded by enabling surcharging is important.

There have been two unintended consequences for consumers of the Reserve Bank of Australia ("RBA") reforms:

- Apparently a number of merchants have exploited the reforms to levy excessive surcharges, significantly in excess of their cost of accepting these cards. JB Hi-Fi does not support nor engage in this practice; and
- Premium 3-party scheme card providers have adopted a strategy of encouraging merchants who intend to implement surcharging, to adopt a blended rate model, thereby distorting the impact of the higher merchant service fee rate charged to merchants by premium 3-party scheme card providers.

JB Hi-Fi supports the overriding objective of the RBA reforms which was to encourage competition in the credit card space by increasing the transparency of the cost of different payment methods, driven by merchants having the ability to send card holders price signals by surcharging card transactions.

A critical protection for merchants is that card providers and scheme's are unable to withdraw their cards from merchants who elect to surcharge. This protection is currently not afforded under the New Zealand reforms and as a result JB Hi-Fi has not adopted surcharging in the New Zealand market, as we do not want to discriminate against customers who wish to use premium 3-party scheme cards as a form of payment.

From a policy perspective, JB Hi-Fi considers that it is important for customers to have a variety of payment options that are not surcharged and as such we believe it's important to offer at least one form of credit card that is not surcharged. JB Hi-Fi currently only surcharges American Express & Diners cards (refer to Appendix I for the counter sign displayed in all our stores regarding surcharging).



Detailed below are our responses to the various issues outlined in the Document:

- i. *Is there a case for modifying the Standards to allow schemes to limit surcharges?*
 - No, if regulation is required then this should be facilitated by the RBA.

- ii. *Is there a surcharge cap best implemented by the Board setting a transparent and specific permissible cap that is specified in the Standards, and may then be imposed in scheme rules? Or, should the Standards allow scheme rules to limit surcharges to an amount that is either reasonably related, or equal, to each particular merchant's cost of acceptance?*
 - A cap is simple but could be set at a level that large merchants could exploit. A simple example is provided below:

	MSF	Cap	Potential benefit
Large merchant*	70 bps	200 bps	140bps
Small merchant*	200 bps	200 bps	-

** note that these figures are indicative only*

In relation to setting a cap that is reasonable, the key issue is how to define what is actually reasonable. This is inherently difficult and would differ from merchant to merchant. An alternative would be to allow a merchant a small margin (referred to below as tolerance) on top of its cost of card acceptance. That said, for JB Hi-Fi we do not consider there to be many incremental costs on top of the raw MSF rate. The onus should be on the merchant to prove to the relevant regulator (i.e. the RBA), that their surcharge structure is not excessive.

- iii. *Should there be some level of tolerance allowed around any surcharge cap?*
 - Whilst JB Hi-Fi does not consider that it requires any tolerance in regard to how we surcharge the differential between Visa and MasterCard and premium 3-party scheme cards, if the RBA considered it necessary then it would need to be no more than 5% above the merchant's cost of card acceptance.

- iv. *Is the merchant service fee an appropriate measure of the cost of card acceptance (that can be applied consistently across all merchants)?*
 - We understand that this can vary widely between merchants. JB Hi-Fi only surcharges premium 3-party scheme cards. We believe our customers have the right to choose which form of payment they wish to use, but do not believe our total customer base should subsidise the higher cost of premium 3-party scheme cards used by less than 2% of our customers. As a result, our policy is to only recover the differential cost through our surcharge of these premium 3-party scheme cards.

- v. *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 scheme? Are there alternative ways to allow for differential surcharging?*
- The scheme rules should not prohibit merchants from applying a surcharge in the manner that a merchant considers is most appropriate to their particular circumstances. There are no alternative ways to allow for differential surcharging that appear obvious to us.
- vi. *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 '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?*
- Yes the no-surcharge Standards should require acquirers to pass on information if requested by a merchant. The more relevant and timely information a merchant has in relation to the cost of acceptance for each card type will enable the merchant to set any surcharges at the most appropriate and relevant level.
- vii. *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?*
- We do not believe there is a sufficient case for disclosure of the cost of card acceptance by merchants. Merchants and acquirers should be free to negotiate with best endeavours a competitive card acceptance rate. This process would not be encouraged by the disclosure of fees by merchants, with the risk that this could potentially distort the market.
- The disclosure of merchant category based information by the RBA, detailing the range and average of merchant service fees for each card scheme, would be a positive development.

Should you have any queries in relation to the above then please contact me on (03) 8530 7333.

Yours sincerely



Richard Murray
Chief Financial Officer



APPENDIX I

American Express & Diners Club counter sign

**AMERICAN EXPRESS &
DINERS CLUB**



**CARDHOLDERS IMPORTANT
NOTICE**

In order to maintain our “Cheapest Price to You Policy” JB Hi-Fi applies a surcharge of 1.9% to purchases made by American Express or Diner Club Cards. This surcharge reflects the commission premium of these cards relative to other major credit cards.