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9 February 2012

Head of Payment Policy Department
 Reserve Bank of Australia
 GPO Box 3947
 Sydney NSW 2001

Dear Sir,

Consultation Document – A Variation to the Surcharging Standards

In its consultation document released on 16 December 2011, the Reserve Bank invited submissions in relation to the proposed variation to the standards relating to surcharging. In response to this invitation, Customers Ltd provides the following brief submission for consideration by the Bank.

The need for a variation to the original standards adopted by the Bank in January 2003 could be seen as being the result of some unintended consequences arising out of the Bank's involvement in regulation of the payments system i.e. a degree of excessive merchant surcharging following the removal of the schemes' 'No surcharge' rules.

It is this area of potential "unintended consequences" that may arise from the proposed variation to the standards we would like to highlight in this submission.

Potential Unintended Consequences

It is acknowledged that one of the objectives of the Bank in implementing regulatory controls in the payments system was to achieve a more efficient payment system through more transparent price signals to consumers as to the relative cost of credit card transactions vis-a-vis other payment methods.

Surcharging by merchants is an obvious method by which these price signals can be conveyed to consumers, however, the issue is a complex one for merchants when the different merchant acceptance costs between schemes and amongst various products within a scheme are taken into account, as is noted in the Bank's Consultation Document.

Adding to this complexity for merchants is the widespread use of "Multi-function cards" in Australia where scheme credit and debit cards are regularly used by cardholders as access cards in both the EFTPOS and ATM networks to access debit account funds, without the transactions being processed through scheme processing arrangements but rather through bilateral interchange network arrangements.

Therefore, the merchant's cost of acceptance is related to the type of transaction that the cardholder selects i.e. scheme credit transaction or scheme debit transaction as opposed to a domestic debit transaction, rather than the type of card used to initiate the transaction.

Retaining multi-function cards is regarded as being an important feature of the Australian payments landscape (as noted in the Bank's press release of 2



September 2011) and we are concerned that domestic debit card transactions initiated through the use of multi-function cards could become negatively, and inadvertently, impacted as a result of the proposed changes to the standards.

In order to remove the potential for debit transactions initiated using a multi-function card from being treated as scheme transactions, which they are not, and to be treated in the same manner as other domestic debit transactions are treated, we recommend the following changes to the proposed variations to the standards:

Draft Standard No.2 – Merchant Pricing for Credit Card Purchases (*Attachment 1*)

The definition of 'credit card' be amended to:

'credit card' means a card issued under the rules of the Scheme that is being used for purchasing goods or services on credit, or any other article issued under the rules of the Scheme and commonly known as a credit card;

Draft Standard – The 'Honour All Cards' Rule in the Visa Debit and Visa Credit Card Systems and the 'No Surcharge Rule' in the Visa Debit System (*Attachment 2*)

The definition of 'Visa credit card' be amended to:

'Visa credit card' means a card issued by a participant in Australia in the Visa credit card system, under the rules of the scheme, when used by the cardholder to make payments to merchants for goods or services on credit, or any other article issued under the rules of the Scheme and commonly known as a credit card;

The definition of 'Visa Debit card' be amended to:

'Visa Debit card' means a card issued by a participant in Australia in the Visa Debit system, under the rules of the Scheme, that allows the cardholder to make payments to merchants, utilising scheme processing facilities, for goods or services by accessing a deposit account held at an authorised deposit-taking institution;

The intention of these suggested changes (or similar changes) is to ensure that multi-function card initiated debit transactions will continue to be treated on the same basis as other debit transactions are through the domestic debit system.

We appreciate the opportunity to provide this submission on the proposed variations to the standards. Please do not hesitate to contact me for any further information.

Yours sincerely

A handwritten signature in black ink, appearing to read "Tim Wildash", with a stylized flourish at the end.

Tim Wildash
MD and CEO