

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

31 May – 2 June 2011

Question No: BET 26

Topic: EFTPOS debit card interchange fees

Hansard Page: Written

Senator Williams asked:

1. Canada and New Zealand have zero EFTPOS debit card interchange fees. In Australia EPAL, representing the big four banks, Coles and Woolworths, have increased interchange fees by 10 cents to the benefit of issuer banks and to the detriment of acquirers and merchants. EPAL claims the fee increase was needed for investment in new technology but it is acquirers and merchants not issuer banks who carry the burden of that investment. Why has the RBA sanctioned what appears to be a revenue grab by the nation's biggest oligopoly?

3. Before the fee increase, EPAL had a clear cost advantage that led Woolworths to route all debit cards through the EFTPOS network. Yet EPAL who claims to be trying to compete more effectively put up fees and reduced a cost advantage. How is such behaviour likely to enhance EFTPOS's competitiveness?

4. Woolworths and Coles seem to have unfairly benefited from sole merchant membership of EPAL and bilateral agreements as they still actually receive 5 cents per EFTPOS transaction whereas other merchants are now 10 cents worse off as they may have to pay 5 cents per transaction. Would you consider this an unfair advantage?

Answer:

The RBA does not set multilateral interchange fees in the eftpos system; these are determined by the EFTPOS Payments Australia Limited (ePAL) scheme.

In January 2010, the RBA put in place a revised eftpos interchange fee standard with the purpose of placing eftpos on an equivalent regulatory footing to the scheme debit card systems in order to facilitate and stimulate competition between the eftpos and the scheme debit systems. This followed the establishment of the ePAL scheme, which can make decisions, including on interchange fees, in the interests of the scheme. Under the revised standard, any multilateral interchange fee set by ePAL is capped at 12 cents paid to the

issuers – the same as in the scheme debit card systems. (In other words, multilateral interchange fees can be up to 12 cents paid to the issuer, or any amount paid to the acquirer.)

The ePAL scheme aims to promote the eftpos brand and position the system in a way that makes it attractive to various players. Such decisions by ePAL may include investment in and the deployment of new technologies and other measures.

3.

Under the previous eftpos charging structure, fees flowed from the cardholder's bank to the merchant's bank (for transactions without cash-outs). This had provided an incentive for the issuing side of banks to promote the scheme debit systems (MasterCard and VISA debit – which have interchange fees flowing from the merchant's bank to the cardholder's bank) to cardholders ahead of eftpos in order to generate interchange fee income. As a result, the scheme debit system grew at the expense of eftpos even though the eftpos system as a whole is cheaper to operate.

ePAL's new interchange fee schedule is intended to result in a more sustainable model by striking a more competitive balance between the incentives for card issuers to promote the eftpos scheme, and for merchants to accept payments through eftpos.

It should be noted that the new eftpos interchange fee of 5 cents per transaction for transactions over \$15 (the majority of transactions) compares favourably with 12 cents for scheme debit, and 0.5 per cent of the transaction value for credit cards.

4.

Coles and Woolworths are different to other businesses in that they do not require a bank to process their side of eftpos transactions on their behalf: they have invested in the infrastructure, processes and systems required to perform this function themselves. Other business could make this investment if it was in their interest to do so.