

The Secretary  
Senate Economics References Committee  
Suite SG 64  
Parliament House  
Canberra ACT 2600

Dear Mr Hallahan

**Possible links between household debt, demand for imported goods and Australia's current account deficit**

I am writing on behalf of the Australian Merchant Payments Forum (AMPF) in response to your letter of 14 December seeking input into the above public inquiry.

The AMPF is a group chaired by the Australian Retailers' Association, representing merchants on key issues relating to payment systems.

The AMPF wishes to raise a proposal currently being considered that may have the impact of discouraging the use of debit cards, in favour of credit cards thereby leading to increasing household debt.

The Reserve Bank has made recent reforms to the card payment systems of EFTPOS debit and credit. These reforms are intended to protect the public's interest by ensuring that fees and charges more closely reflect the costs of providing these services, that fees are more transparent to consumers and that the system is opened up to new participants. The AMPF has a particular concern with the current reforms of the EFTPOS system.

We believe that the Reserve Bank's decisions relating to EFTPOS will ultimately determine the extent to which consumers balance their use of credit and debit cards, to the detriment of debit, and to the detriment of household debt.

The RBA has flagged its intention to remove the interchange fee within the EFTPOS system. When a debit card is used, an interchange fee is paid by the issuer of the card to the acquirer of the transaction at the merchant's point of sale. This fee reflects the approximate cost of operating the system. In addition, retailers also pay a merchant fee (around 20c) for accepting a transaction. Many retailers also pay rental charges for the EFTPOS hardware

(which covers the hardware itself, paper rolls, etc). The Reserve Bank does not propose regulating the merchant fee or rental charges.

It is the AMPF view that the current charging arrangements accurately reflect the proper distribution of costs for the operation of the system, whereby interchange fees are necessary to cover the considerable costs of providing and maintaining EFTPOS facilities and to develop new technologies, for example those aimed at ensuring the security of the network.

If the interchange fee is removed, acquirers will look to make up the lost cost recovery through other means. We estimate this to be somewhere in the order of \$170-200 million per year.

AMPF's concern is that this lost revenue by acquirers, providing card issuers a windfall gain, will be recovered from retailers, who will likely see merchant fees or rental fees significantly increase. For a small single store business, this increase could equate to around \$2,000 per year. This cost could mean that small businesses are forced to remove the EFTPOS facility, or to pass on the higher cost to consumers through higher prices or direct surcharges for use of EFTPOS. This would discourage the use of debit cards by consumers and increase the use of credit cards, thereby leading to an overall increase in household debt.

The AMPF is convinced that if these changes to move the current interchange fee to zero go ahead, consumers will actually be worse off than before. They will be paying more for goods and services, be hit with direct surcharging, or increase their use of credit. EFTPOS (i.e debit card) usage may actually decrease as a result and the use of credit is likely to increase.

The assumption that EFTPOS interchange fees required reform to increase competition and efficiency was challenged in April 2004 in proceedings before the Australian Competition Tribunal (in respect of which the RBA was granted leave to intervene). In rejecting a proposal to introduce a zero interchange fee, the Tribunal determined that such a proposal would result in a clear public detriment.

The Australian Retailers Association and some of the AMPF's members have now launched legal action in the Federal Court to challenge the RBA's decision to "designate" the EFTPOS system, because the decision:

- did not take account of the important role of merchants in the EFTPOS payment system
- incorrectly determined a need for regulation to address issues of efficiency within the current EFTPOS system when the system is already efficient, and

- failed to consider the Australian public – i.e. they are intending to move intra-banking costs onto consumers without any consideration of the impact on those consumers

The AMPF would like to thank the Committee for this opportunity to comment. I am happy to provide any further information or attend a hearing of the Committee to talk to this submission if that would be of assistance.

A handwritten signature in black ink, appearing to read 'Chad Gates', with a horizontal line extending to the right.

Chad Gates  
Chairman, AMPF  
Policy Director, Australian Retailers Association