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# Woolworths and debit cards

You can no longer press “CR” after swiping your debit card at Woolies. We look at the reason for this change, and its potential impacts.

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## 01. Debit card changes

Woolworths will no longer process Debit MasterCard and Visa Debit payments at its stores, in a move to cut costs, increase revenue and encourage shoppers to use cheaper payment systems. Most individuals will not be greatly inconvenienced by the move; customers of all but one bank (Commsec) will still be able to use the same debit card as before to access funds from their bank account.



The main practical change is that when using debit cards at Woolworths, BWS, Dan Murphy's, Dick Smith, Tandy and other stores in the group, you'll only be able to press CHQ or SAV and enter your PIN to make a payment or get cash out. You will no longer have the option of pressing CR with your debit card, because that sends transactions through the MasterCard or Visa (“Scheme”) system rather than EFTPOS. All credit card transactions are unchanged - you can continue to use your credit card exactly as before.

Confused? Well, that's understandable. It's always been confusing for consumers to be told by their bank or credit union to press “credit” with their “debit” card. Here's a [simple explanation](#).

## Changes will cut costs

So why is Woolworths encouraging EFTPOS use over Scheme Debit? Simple — for money. Each time a customer uses an EFTPOS card and presses CHQ or SAV, Woolworths receives a fee of about 4 cents. But when consumers use their debit card and press CR to access the MasterCard or Visa system instead, Woolworths says it pays a fee of 8 to 12 cents. So the net difference for Woolworths is at least 12 cents per transaction, a not insignificant amount considering the volume of transactions it processes.

You might also wonder about the timing of Woolworths' move - after all, financial institutions — principally credit unions - have

offered Scheme Debit cards for nearly 30 years, encouraging their customers to press CR for lower fees. The game changer has been the big banks' entry to this arena. They've heavily promoted Scheme Debit in the last year or so, with tactics including sending consumers unsolicited debit cards with combined Scheme Debit / EFTPOS functionality, to replace EFTPOS-only cards (ASIC recently sought to stop Westpac doing this, but the Federal Court found the [practice is legal](#)). This has led to a dramatic rise in Scheme Debit transactions, capturing of a large chunk of EFTPOS' market share. In its favour, Scheme Debit cards can be used online and overseas, unlike EFTPOS-only cards, and the daily transaction limit with Scheme Debit is often higher.

In light of the increased costs and reduced revenue it faced from Scheme Debit transactions, Woolworths says it had three options. It could do nothing, continuing to pay for Scheme Debit transactions and forgoing EFTPOS revenue. Or it could have introduced a customer surcharge for the use of Scheme Debit — about 4-5 cents per transaction would have reflected its costs. This would have sent a price signal to consumers to indicate the true cost of using Scheme Debit, while retaining the option to use Scheme Debit if they wished. Perhaps fearing a consumer backlash over the introduction of surcharges, Woolworths chose a third option - to channel all debit transactions through EFTPOS and not Scheme Debit. Ironically, this has attracted the consumer backlash in some quarters that Woolworths was trying to avoid. (A fourth option was - and still is - available; that Woolworths pays the consumer a small fee from the revenue it receives each time an EFTPOS card is used. Though the retailer claims it pays far more in bank fees that it receives — millions of dollars more.)

## Impacts of the decision

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For customers, there will be some initial confusion at point of sale, and consumer and staff education around the changes is needed. But after that most customers will be able to continue using the same debit card at Woolworths to access the same bank account, pressing SAV or CHQ instead of CR.

The changes also turn attention to bank account fees. Some customers will see their banking fees increase when they pay by debit card at Woolworths. However, many transaction accounts offer an unlimited number of free EFTPOS transactions, sometimes with no monthly account fee. Check out our [low-fee bank accounts comparison](#) for best buys.

Customers should also note that the [chargeback protections](#) with Scheme don't apply with EFTPOS - irrelevant when you're buying bread or milk, but perhaps useful for consumers who purchase an appliance or electrical item that isn't delivered, for example, or buy products from a company that goes into liquidation, as we saw with the Kleenmaid case.

For the payments systems industry, Woolworths' move is a major boost for EFTPOS — a relatively low cost system which still dominates the debit card market with 80% of the number of debit card transactions and 72% of their value, but [EFTPOS has lost significant ground](#) in the last 18 months.

Lastly, Woolworths' move may put downward pressure on Scheme Debit interchange fees. Woolworths has sent a clear message that it believes MasterCard and Visa debit fees are too high when compared to EFTPOS. The Reserve Bank's reforms to the Payments System enable retailers to send such messages and to take such actions. For example, the abolition of card schemes' "no surcharge" rule empowers retailers to influence consumers' choice of payment card by introducing surcharges that pass on the cost of card acceptance (in some cases retailers have taken advantage of the situation and profiteered with much [higher than necessary surcharges](#)). The Reserve Bank's reforms also got rid of the "honour all cards" rule, whereby retailers accepting a Visa credit card, for example, were required by the Scheme to accept Visa Debit cards too — even if they felt the debit card was expensive or uncompetitive.

We can only speculate on whether Woolworths' removal of the Scheme Debit option will be permanent. If MasterCard or Visa were to come to the table with lower debit card interchange fees, or if the differential between EFTPOS and Scheme Debit interchange fees was to narrow, one wonders if we'd again see their cards accepted at Australia's biggest retailer.

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