

The Australian

Woolies squares off against Visa over debit card system

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Susie Sedgwick, owner of Soleilo boutique in Hampton, Melbourne, objects to paying extra when customers use debit cards. Picture: Andrew Brownbill

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WOOLWORTHS has found itself in a curious case of role reversal.

Australia's largest retailer is playing the part of David taking on a true Goliath in the global financial world -- payments multinational Visa.

In a move led by finance director Tom Pockett and group head of financial services, Dhun Karai, Woolworths launched a broadside against Visa in April, refusing to allow debit card payments to be processed as credit transactions and routing all scheme debit transactions through the Eftpos network rather than Visa or MasterCard.

Detractors such as the Association of Building Societies and Credit Unions have referred to the announcement as Woolworths' April Fools' Day joke given its release on April 1, but there's no sign Pockett is anything but deadly serious.

"We know this move is confusing for some of our customers, but the simple fact is every time that credit button is pushed it sets off a chain of events that hurts small retailers and adds another level of cost that has to be passed on to the end consumer," Pockett tells The Australian.

"Certain people talk about Woolworths' decision in terms of limiting a customer's right to choose. But the reality is scheme debit is a Hobson's choice as the financial institutions still eventually reap the rewards either directly or indirectly."

It is about the bottom-line, certainly, but Woolworths argues it wants to avoid having to slap a surcharge on customers using scheme debit cards; and by keeping costs low it also keeps the prices on its shelves low.

When a Woolworths customer uses an Eftpos card and presses the CHQ or SAV buttons it collects (as do other acquiring institutions) a fee of 4 cents. On the flipside, when consumers use a debit card and press CR to access the MasterCard or Visa system instead, it pays a fee of 8 to 12 cents.

It's a substantial difference and if you're Woolworths processing 19 million transactions a week (of which scheme debit is a tad over 5 per cent and rising at a very fast clip), the numbers start to add up.

Woolworths remains one of the few national retailers that do not place surcharges on any form of card payments. Most smaller retailers, including convenience stores and petrol stations, have introduced a range of surcharges to cope with payment fees.

While Pockett paints the decision as pro-consumer, critics -- of which most notable are credit unions -- argue the decision has more to do with protecting Woolworths' profit margins. Whatever the real motivation, the retailer has cast itself as a frontline defence against Visa's efforts to supplant the Eftpos payments system.

In the US that battle has already been fought and lost, with industry figures estimating that Visa commands 85 per cent of all debit payments and Eftpos is a shadow of its former self, holding on to the rump. From Pockett's vantage, it's not a situation that bears repeating in the local context. The battle comes against a backdrop of structural change in consumer behaviour. Having found themselves over-extended and drowning in credit card debts at the end of 2007, households have altered course with the GFC and are using cash and scheme debit cards over credit.

Scheme debit cards were used to make 357 million purchase transactions via the Visa and MasterCard networks in the past 12 months, of which Visa is likely to account for close to 290 million, if Woolworths' experience were to be replicated across all retailers.

Annual growth, although off a low base, is running in double digits (one estimate puts it as high as 27 per cent in calendar 2009). Scheme debit cards now account for more than 5 per cent of all payment transactions, compared with Eftpos at about 34 per cent.

Russell Zimmerman, executive director of the Australian Retailers Association, of which Woolworths is not a member, said smaller retailers were charged even more for scheme debit transactions.

"I think Woolworths have taken the view that if they don't turn the button off, then in the long term we won't have an Eftpos system and everyone will end up paying a lot more for transactions," he says.

"The issuing side of the bank is pushing scheme debit cards on to customers, and telling them to press the credit button, so that they get the money."

According to Visa's public fee schedule, strategic merchant partners (typically the big retailers) pay 0.275 per cent to 0.385 per cent on credit transactions, while other retailers pay 0.44 per cent.

"It's cheaper for every retailer in Australia to have transactions processed through Eftpos than by Visa debit, and if we don't see the cheque or savings button used, Eftpos will disappear just like Bankcard did."

Mr Zimmerman is also chairman of the Australian Merchants Payments Forum, a group of retailers including Coles and Woolworths, formed to fight the banks over the charging of interchange fees for processing sales on cards issued by third-party institutions.

AMPF wrote to the RBA in April voicing concerns over banks' handling of scheme debit cards and the costs imposed on retailers.

"You could be cynical and say there's a financial gain for Woolworths in this, and to some degree there is -- Woolworths get paid for taking scheme debit cards when you press the cheque or savings button, and when you press the credit button, Woolworths pay for it," Zimmerman says.

"But when you scale it down to small retailers, if you have a sale and you put it through the credit button, the retailer pays a merchant service fee, which will generally be a percentage of the sale value, as opposed to a cheaper flat rate for Eftpos."

Unlike Woolworths, smaller retailers don't have their own transaction routing system, commonly referred to as a

"switch" and so cannot follow the supermarket giant's lead in deactivating the credit option from keypads.

Smaller retailers were also hit harder because they generally pay the same fees for credit and scheme debit transactions, while Coles and Woolworths have negotiated lower fees for scheme debit than credit cards.

Susie Sedgwick, owner of fashion boutique Soleilo in Melbourne's bayside suburb of Hampton, said she pays 15c for an Eftpos transaction, but 0.725 per cent for credit and debit card transactions made on her St George Bank-supplied payment terminal. Sedgwick says she was surprised to see a customer using a major bank debit card with an attached sticker which read "Press credit to access your own money and get access to added Falcon Fraud Protection."

The banks' argument that in choosing the credit option customers have access to additional security safeguards unavailable under Eftpos doesn't wash with her. "They make out that because the customer doesn't pay they're being terribly generous, but they're not, because I'm the one who pays for it," she says.

Sedgwick says she has now asked customers using debit cards to select the cheque or savings option rather than credit, and has considered adding a surcharge for those who chose credit.

In a recent statement Visa -- which declined to comment for this article -- said it was "committed to working with Woolworths to reach a mutually satisfactory outcome."

Pockett is a little more circumspect about the chances of a resolution with Visa. "It's a bit like jumping off a cliff with a bungee. We're off now . . . there's no turning back," he says.

The battle lines are drawn and the stakes high for Visa. In New Zealand a backlash a few years ago by retailers, including Woolworths' Progressive unit, forced Visa debit transactions to use that country's Eftpos network -- in effect, denying Visa lucrative lucrative scheme fee revenues.

Certainly relations remain strained. It's understood Woolworths is the only major retailer or issuing financial institutions that failed to garner an invite to an upcoming conference hosted by Visa in Hanoi, Vietnam.

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