

Best ways to keep cash flowing

- Bruce Mansfield
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The RBA is overhauling its payment systems.

THE payment system is to the Australian economy as plumbing is to a house. Mostly invisible, not that glamorous and something we never worry about until it goes wrong.

Just as your plumbing needs maintenance and the occasional overhaul, so does our payments system. And that's something the Reserve Bank of Australia is doing right now.

By the end of this month the RBA will have gathered submissions from major payments participants - financial institutions, retailers, Visa, MasterCard, eftpos and a range of payment solution providers - as part of its Strategic Review of Innovation in the Payments System.

The RBA's concern is to ensure Australia's payment system is as efficient, open, competitive and adaptable to changing needs as it can be.

It also wants to bring down any artificial barriers to entry, so there is space for innovators to keep incumbents honest, just as the likes of PayPal are challenging Visa, MasterCard and BPay in the online space.

The design of our payments system has huge implications for the wider economy. It matters especially to hundreds of thousands of small retailers, for whom transaction charges are a tangible cost of doing business.

With retailers squeezed on multiple fronts, it is imperative they have genuine choice over payment providers and costs.

Consider the long-term shifts in the way consumers pay for goods and services. Cheques appear to be in terminal decline, while cash has dropped significantly, replaced mostly by debit cards (eftpos, Visa and MasterCard). Factor in credit cards, and retailers are beholden to one form of plastic or another as never before.

Their transaction charges should reflect the cost of accepting different cards, and retailers should be able to manage card acceptance mix for lowest overall cost.

Eftpos is the cheapest of all cards for merchants to accept, about two to three times cheaper than Visa and MasterCard debit and many more times cheaper than credit cards. However, many retailers face "bundled" transaction fees, in which low-cost eftpos subsidises high-cost Visa and MasterCard transactions.

With about 250,000 new Visa or MasterCard debit cards issued each month, it is not surprising there is a growing clamour from retailers for banks to shift to differentiated transaction pricing.

Innovation is another front in the battle among payment providers for the hearts and minds of retailers and consumers. It goes to the heart of the RBA review. We need rules that give established and aspiring payments players the incentive to invest in new capabilities such as contactless ("tap-and-go") and mobile payments, and more secure online payments.

In 2010-11, eftpos accounted for more than two billion transactions in Australia, more than half of all card transactions. For merchants we are a safe, fast and low-cost alternative to Visa and MasterCard. But the payments space is moving quickly. We need to invest in the features consumers want if we are to stay in front of the pack.

In March, eftpos announced changes to fees flowing between financial institutions on either side of eftpos transactions. These fees are not paid to eftpos, nor do they affect retailers or consumers directly. They will encourage the investment required by financial institutions in next-generation capabilities for eftpos.

The changes are due on October 1. Later this month we will know how many financial institutions intend to move to the new arrangements from that date. We expect the majority of eftpos owners to do so, with the rest later.

Bruce Mansfield is managing director of eftpos Payments Australia Limited (ePAL).