

Break up? Yes, BREAK UP! The chance for banks to do something right

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In 2010, banks increased their fees for business by 13% to \$6.9 billion.

In 2011, banks decided to increase the interchange fee for EFTPOS transactions by 10 cents, except for Coles and Woolworths^[1].

Now, small and medium business customers of the big banks are the least satisfied of all business customers^[2].

While the banks must decide whether they all opt into the new EFTPOS fee increase by 1 Oct 2011, a bank can choose to do the right thing and 'break up.'

Across the globe, banks are challenged to lower the interchange fees they charge on debit cards, which give consumers convenient and inexpensive access to their money. In Canada and New Zealand, the debit card interchange fee is *zero*.

Why has EFTPOS Payments Australia Limited (EPAL), which represents the banks and big retailers and processes two billion transactions per year, announced an increase of the interchange fee? Why raise the cost of EFTPOS transactions by 10 cents for all acquirers and merchants except Woolworths and Coles?

There was a time when banks contributed by paying those acquirers and merchants deploying and maintaining the EFTPOS infrastructure in stores. Now, acquirers and merchants will be charged, effectively a tax on EFTPOS access.

The Payment System Board (PSB) at the Reserve Bank, the relevant regulatory body for payment systems, decided to grant the industry greater flexibility in setting interchange fees and is strongly in favour of maintaining EFTPOS access on all debit cards.

How did the banking industry respond to this new liberty? EPAL announced an increase in EFTPOS fees from 1 October 2011.

If EPAL had the long-term interest of the EFTPOS system at heart, the banking community would continue issuing all Australian scheme debit cards with EFTPOS access. It would also continue paying acquirers and merchants rather than charging them. One or more banks breaking up and refusing to opt into the fee rise would do something right:

1. Every Australian debit cardholder would have a choice at the point of sale between Visa and MasterCard, or the domestic EFTPOS network.
2. Every Australian merchant would have the choice of offering debit card acceptance through Visa and MasterCard, or through the low-cost EFTPOS network.
3. The interchange fee would continue to flow to the acquirers and 325,000 merchants contributing to the upgrade of 700,000 EFTPOS terminals to accept chip and contact-less cards.
4. All retailers would be on a level playing field with the same interchange fee. Woolworths and Coles would not have up to a ten cents advantage.

In August 2009, the PSB refrained from regulatory removal, judging that the banking industry had not yet reached the point where they exerted significant competitive pressure on interchange fees. What is the conclusion now?

A strong EFTPOS system requires investment by acquirers and merchants. It does not need banks to stop paying and start charging by levying a new tax on EFTPOS access.

This is an unjust and untimely burden on Australia's merchants and consumers! Time to break up?

[1] EPAL Announcement 8 March 2011

[2] Morgan Research's Business Bank Satisfaction Update; DBM Consultants' Business Financial Services Monitor

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first new entrant into the EFTPOS business in over 14 years.

Image by [Images_of_Money](#) ^[1]

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