

# One fee to rule them all

By Jason Bryce

The Reserve Bank of Australia yesterday published submissions made to its draft access regime and interchange standards. There were twelve public submissions – none of them from major banks – while four more major merchants provided confidential information about their Eftpos related costs.

The RBA plans to introduce a standard on Eftpos interchange, that would dictate which costs banks and non-bank switches may take into account and that appear likely to narrow interchange fees by three quarters to around five cents. Interchange, which is agreed on the basis of bilateral negotiations at present, is paid by the cardholder's bank to the merchant's bank, while large merchants in turn often collect a fee from their bank.

The RBA also plans to regulate the Visa Debit system (reducing interchange fees to around 15 cents, though in this payment product interchange fees flow between banks in the reverse direction to Eftpos).

The proposed access regime is less controversial, but provides statutory back-up to voluntary code agreed by the Australian Payment Clearing Association to foster entry to the payments system by new entrants.

The point of industry submissions for this final round of industry consultation is to finesse policy decisions already made by the RBA and the Payments System Board, with little effort wasted in addressing core principles.

The merchants, for example, complain that the Reserve Bank still won't consider regulation of interchange fees on automatic teller machines. Coles Myer points to Westpac's recent announcement that it will lift its foreign ATM charges to back its argument that customers will feel the pinch if retailers switch to installing ATMs and stop offering cash withdrawals through Eftpos. Coles wants Eftpos cash withdrawals carved out of the proposed standard.

Coles Myer also wants the RBA to include the cost of PINpads as an "eligible" cost for calculating interchange.

The Australian Merchant Payments Forum points out that although the entry fee to the payments system has been set, the connectors are still free to charge restrictive annual fees.

Among the connectors, First Data said that the minimum number of connections for a new entrant should be lifted to five so the system doesn't get too complex; a rule that would also help underpin demand for FDR's switching services.

First Data also point out that the \$78,000 entry fee was the lowest figure reported to the RBA's survey of costs in September 2004. The highest was \$460,000.

Credit Link, which undertakes funds management and treasury settlement for some credit unions, again voiced concerns about the new payments' company ability to make the connectors comply with the new code: "... the issue remains of concern to us particularly should the industry body charged with ensuring compliance not be independent to the access providers themselves. Our strong preference remains for this role to be given to an independent industry regulatory body."

Credit unions will begin marking their Visa debit cards with the word Debit from 1 July.

Credit Union Industry Association said that the RBA's concern that Eftpos would suffer at the hands of Visa debit is unrealistic. Rather credit unions and their customers may be forced to credit cards.

CUIA contests the underlying assumptions of the RBA's analysis of the risk that banks may abandon Eftpos and promote the (more expensive, according to the RBA) Visa Debit product.

"The major Eftpos issuers – big banks – are much more interested in selling credit cards," CUIA wrote in their submission.

"The RBA's reform proposals will leave existing Visa Debit issuers with little alternative but to move into this market ... The Visa Debit interchange fee draft standard is clearly punitive and arbitrary when it is lined up against the credit card interchange fee standard."

Budding entrant to the payments scene MoneySwitch said there should be a single reciprocal fee for each transaction regardless of which party originated the transaction. MoneySwitch otherwise they fear being forced to pay a premium to the existing connectors and get peanuts back.

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