



**Abacus**  
Australian Mutuals

24 June 2013

Mr Colin Neave AM  
Chair  
Commonwealth Consumer Affairs Advisory Council  
C/O CCAAC Secretariat  
[mark.frost@treasury.gov.au](mailto:mark.frost@treasury.gov.au)

Dear Mr Neave

### **Credit card surcharges and non-transparent transaction fees**

*Abacus-Australian Mutuals* appreciates the opportunity to contribute to the inquiry into credit card surcharging by the Commonwealth Consumer Affairs Advisory Council.

On behalf the customer-owned banking sector, we bring a card-issuer and cardholder perspective to this issue and we support action to stop consumers being gouged by excessive surcharging.

Abacus represents the customer-owned banking sector, comprising 85 credit unions, 7 mutual building societies and 9 mutual banks. Collectively, customer-owned banking institutions have total assets of \$85 billion and serve 4.5 million customers.

Customer-owned banking institutions provide the full range of retail banking services, including credit cards and debit cards, and are Authorised Deposit-taking Institutions regulated by the Australian Prudential Regulation Authority under the *Banking Act 1959*.

Credit unions, building societies and mutual banks provide some of the most competitive credit card products in the Australian retail banking market but our sector's main presence in the payment card market is issuance of scheme debit cards.

For cardholders, scheme debit cards provide the same payment functionality as credit cards but using the cardholder's own funds.

For merchants, the interchange fee on a scheme debit card transaction will generally be less than for a credit card transaction though this is not always reflected in the service fees paid by merchants to their 'acquirer' banks for credit and scheme debit transactions.

The consumer issues arising from credit card surcharging also apply to scheme debit:

- in certain industries merchant surcharges for credit cards (and scheme debit cards) are well in excess of underlying costs; and
- the incidence of surcharging is much higher for online purchases than those made in person despite the fact there are few or no genuine alternatives to using a credit or scheme debit card.<sup>1</sup>

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<sup>1</sup> <http://www.rba.gov.au/payments-system/reforms/cards/201206-var-surcharging-stnds-fin-ref-ris/index.html>

Since the RBA abolished the card schemes' 'no surcharge rule' in 2003, credit card surcharging has grown to the point where by December 2010 more than 40 per cent of 'very large merchants' were surcharging. Of greater concern is the substantial growth in surcharge levels. Around 10 per cent of surcharging merchants apply a surcharge of 5 per cent or more. These surcharges are more than double or triple the underlying merchant service fees.<sup>2</sup>

The RBA has responded to this problem by changing its surcharging standard to allow card schemes to impose new rules to limit surcharges to the reasonable cost of card acceptance. The new standard commenced in March 2013.

The key factor in determining whether merchants can be constrained from imposing surcharges that are double, triple or an even larger multiple of underlying merchant service fees is the role of the 'acquirer' bank. It is the acquirer bank that has the relationship with the merchant and negotiates the merchant service fee with the merchant. As the RBA acknowledges, the primary incentive of acquirers is to maintain their merchant relationships, particularly with larger merchant clients.

The RBA says card schemes may be able to enforce differential surcharges between debit and credit where the merchant faces a different price for each. The RBA says it would like to see the differences between credit and debit card transactions better reflected to merchants and encourages acquirers to do so.

Abacus recommends that the Advisory Council's study should engage closely with the card schemes, large acquirers and large merchants to assess:

- whether the card schemes and card acquirers are taking effective action to limit surcharging to the reasonable costs of card acceptance; and
- whether the regulatory regime is ensuring merchants and cardholders are given price signals about the different underlying costs of credit and scheme debit cards.

Merchants with market power have taken advantage of the removal of the 'no surcharge rule' by the RBA to gouge consumers with surcharges that far exceed underlying costs of card acceptance. Merchants imposing high surcharges should be investigated by the ACCC as to whether they are engaging in misleading conduct.

Please contact Jim Aliferis on 02 8035 8442 or [jaliferis@abacus.org.au](mailto:jaliferis@abacus.org.au) to discuss any aspect of this submission.

Yours sincerely



**LUKE LAWLER**  
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<sup>2</sup> <http://www.rba.gov.au/publications/consultations/201106-review-card-surcharging/pdf/201106-review-card-surcharging.pdf>