

18 June 2013

VIA EMAIL : ccaac@treasury.gov.au

Commonwealth Consumer Affairs Advisory Council
Mr Colin Neave AM
Chair of CCAAC
Department of The Treasury
Canberra ACT 2600

Dear Mr Neave

Submission - Credit card surcharges and non-transparent transaction fees: a study

CEO Tyro Payments Limited is the only independent EFTPOS provider in Australia competing with the dominant retail banks in card payments and serving the interests of the small business community. Tyro holds a banking authority to acquire credit and debit card transactions and does not take money on deposit.

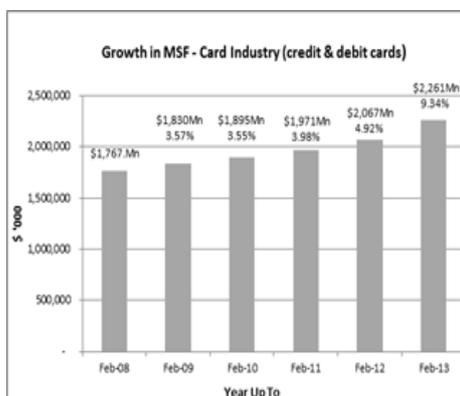
Tyro Payments is responding to the Commonwealth Consumer Affairs Advisory Council's invitation for submissions to the *Review of Card Surcharging: A Consultation Document Credit card surcharges and non-transparent transaction fees: a study*.

The cause of the surcharging practice – excessive bank fees

The forever increasing fees that the banks levied on the merchant community through the so-called “interchange fee” charged by the card issuing banks were at the origin of the RBA allowing merchants to surcharge in the first place.

The disarmingly simple alternative to all the complexities of surcharging would have been for the schemes and banks to eliminate or significantly reduce the interchange fee and thus the surcharging requirement.

The merchant service fee charged for accepting Visa and MasterCard credit and debit cards amounts to 0.78 per cent in March 2013 according to recent RBA data. Another 0.05 per cent is added for EFTPOS terminal rental and other costs.



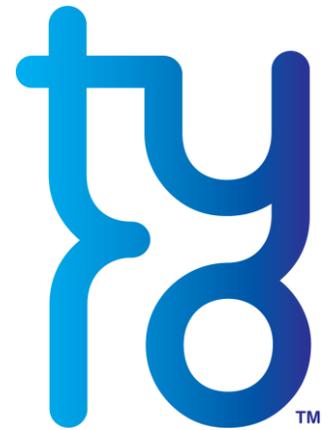
Adding in the fees for the domestic eftpos debit card system, the costs for the merchant community add up to \$ 2.3 billion p.a.

The fee average includes Coles and Woolworths who have significantly more favourable terms than the small and medium business community.

The most important cost element, an estimated 0.50 to 0.55 percentage points of these fees or more than two third, is charged by the issuing bank through the acquiring bank ultimately to the merchant.

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According to the RBA in June 2011 almost 65 per cent of Australian businesses imposed no surcharge at all on credit card transactions, while absorbing these fees the large banks impose on them. The mostly small businesses competing for their customers every day are being forced to fund the lucrative loyalty programs of the major banks, by absorbing these costs.

The reality is that before the RBA intervened to cap the bank fees, the banking oligopoly was driving the fees up. Once that behaviour was reined in by the RBA with the fee cap and the surcharging right, the merchant oligopolies used the situation to drive up their revenue through excessive surcharging.

A CHOICE survey identified airlines, telcos, travel agents, utilities, Cabcharge and petrol stations as among the worst offenders. The top five companies that respondents recalled surcharging were Telstra, Aldi, Qantas, Virgin Airlines and Caltex.

Victims in all cases are the Australian consumer and the Australian small business community.

Reining in excessive surcharging

The RBA has taken a first step, giving the card schemes the right to limit surcharging on their cards to the recovery of reasonable costs.

Visa has established rules limiting the surcharging on its cards, provided a calculator to determine reasonable costs and embarked on a compliance program.

We expect these measures, if implemented, to rein in excessive surcharging over time. Consumers will be able to complain to Visa directly and Visa will survey itself market practices and then force compliance through their bank members.

The changes will spill over to the acceptance of other schemes' card programs or these schemes will follow suite with their own compliance programs.

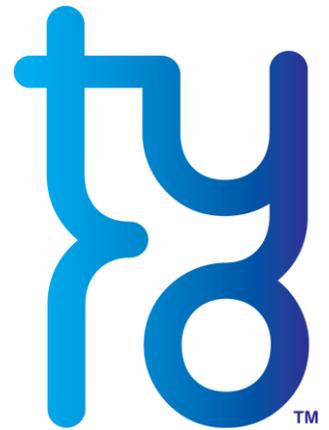
Breaking the Cabcharge monopoly by forcing access

Taxi fares are an area where surcharging has been extremely high as was highlighted by the recent Victorian Taxi Inquiry. Together with its business partner Cabfare, Tyro has embarked on an effort to break the 36 year old Cabcharge monopoly. Cabcharge operates its payment terminals in 97 per cent of Australian cabs.

Tyro developed for Cabfare a highly secure and real-time payment solution that has been deployed in thousands of cabs.

Cabfare has submitted applications to Cabcharge to process their card program four times over several years, only to be rejected every time -- despite the fact that Cabcharge was fined in September 2010 by the Federal Court \$14 million for misuse of market power, one of the highest ever penalties handed down for such a breach.

Subsequently, Cabfare requested that the RBA intervene and designate the unregulated \$438 million Cabcharge payment system. Forcing access for new



competitors will give Australians choice and make payments and taxi travel safer, simpler and more secure.

In his final report the Chairman of the Victorian Taxi Inquiry Professor Allan Fels found "the best way to provide choice is through an open, competitive market".

However, if the surcharge in cabs is halved by regulatory or legislative initiative without breaking the monopoly Cabcharge enjoys, the few new entrants will be driven out of the market and, perversely, the Cabcharge monopoly solidified - to potentially extract monopoly rents in other manners.

Cabcharge has admitted as much in its announcement to the ASX on 30 May 2013 in response to the Victorian Government's legislation to cap EFTPOS surcharges at 5%. In that advice it indicates that the impacts of the changes will be offset by a decrease in the level of competition in transaction processing in Victoria.

Decreasing surcharge fees is ultimately best accomplished by having open access and competitive markets.

Delivering an industry wide best practices surcharging solution

The banking industry should take a second step. In Tyro's view, it is the banks' common responsibility to provide the merchant community with a compliant and auditable surcharging solution.

The EFTPOS solutions that banks market to the business community should automate the cost based surcharging and provide the transparent disclosure and easy to use opt-out function as banks do successfully in the ATM space.

There would be one common best practices user experience eliminating any possibility for consumers feeling misled about the true cost of a good or service. The surcharge amount would be displayed and printed on the card holder receipt as to assure full disclosure.

The merchant who surcharges actual costs would be able to legitimize the surcharged amount and the merchant who refrains from passing on the cost would be able to make this transparent as a service to his customer.

The monitoring and enforcement of compliance would become straight forward.

It is indeed time for the banking industry - schemes, issuers and acquirers - to embrace the surcharging concept, to create a transparent and cost based surcharging process and to pro-actively rein in the excesses.

Tyro is happy to contribute to the development of the best practices and to provide its merchants the required technology, should the banking industry move towards such a surcharging solution.

Yours Sincerely

A handwritten signature in blue ink, appearing to read 'Jost Stollmann', is written over a light blue horizontal line.

Jost Stollmann
CEO