

Mr Glenn Stevens
Governor
Reserve Bank of Australia
65 Martin Place
Sydney 2000



13 June 2011

Re: **Review of Credit Card Surcharging.**

I would like to express my support Mr Stevens for the proposed review of credit card surcharges. I had concerns about allowing merchants to charge fees for accepting credit card transactions when this was introduced as I believed the decision was made without full understanding of the role credit cards had in retail sales transactions. As I will show below bank credit cards provide major benefits to all businesses providing 'retail' services, and I believe a surcharge levied by any retailer is unjustified.

But first I should explain while I feel able to comment. I worked in the credit card industry for several years from 1973, including 9 years as General Manager of Charge Card Services Limited (CCSL), the company owned by banks and set up to provide the processing for the card which came to be called Bankcard. Such processing included issuing transaction approvals when required and all security matters. We signed up and serviced the merchants (some 250,000 when I left CCSL in 1982), and maintained the records for cardholder accounts (some 2,500,000 at that time). We were processing some \$50 m worth of transactions annually. We also handled all processing for international Visa and MasterCard transactions in Australia from their introduction and we provided the RBA with the net interbank balances arising from bank credit card transactions on a daily basis. As General Manager I visited US, UK and Japanese operators and banks. After leaving CCSL I was a management consultant to banks and other credit providers on setting up their credit card operations, and subsequently sold credit card processing software to most of the large providers, including those which moved from using CCSL as the centralized processor.

From this experience, and reports from within the industry, bank credit cards provided these benefits to retailers:

- 1 The bank credit card enabled card-holders to buy on credit, at a much lower cost than obtainable from other credit providers, including hire purchase. It was particularly beneficial to people on lower incomes who generally had difficulty obtaining credit facilities (eg 'lay-by'). In turn this benefitted the retailers who were able to provide their services to satisfy their customers' needs without the limitation of customers actually having to have cash with them. Retailers who were more concerned with maximizing turnover rather than building customer relationships – those who offered discounts for cash – of course still accepted Bankcard.
- 2 The banks behind Bankcard provided the credit directly to the cardholders so obviating the need for the retailers to provide this credit. This removed a significant cost to retailers, and enabled small businesses to offer credit facilities (ie through accepting Bankcard) which previously they had not been able to do – due to difficulty in obtaining such credit facilities (other than hire purchase which wasn't appropriate for all businesses).
- 3 The availability of this effectively free credit facilities to the smaller businesses improved their ability to compete with major retailers.
- 4 The banks which issued the bank credit cards also took responsibility for the debts for all transactions on the cards which where necessary had been 'approved'. So retailers had no bad debts, nor were involved in the costs of recovery of those debts. In this way bank credit cards also were superior to cheques. From both reasons, retailers obtained financial benefits.

- 5 Retailers received cash in their bank accounts faster than when payments were made by cheques. effectively the day after they had deposited the merchant copies of the paper transactions. When EFTPOS was introduced the processing was overnight.
- 6 The bank credit card vouchers required less manual handling than cash transactions with almost no human arithmetic errors and greatly reduced opportunities for 'sticky finger' employees to steal small amounts of cash. EFTPOS further improved this situation. Although not all providers of retail services see this as a benefit, the bank credit card records reduced the possibilities of tax avoidance.
- 7 Although not so relevant now when bank credit card facilities are almost universal, in the first few years after Bankcard's introduction, the Bankcard logo outside a merchant's premises was a form of advertising, inviting people to take their custom there.

Altogether these benefits arising from the bank credit card gave retailers significant cost savings. The fees charged by their merchant banks were perceived as worthwhile by most thoughtful retailers. It was always unfortunate, but a fact of business life, that large providers of retail services were able to negotiate lower 'merchant service fees' than small providers. A form of 'bulk discount'.

But nowhere is there any justification for the high level of fees for bank credit card transactions charged by some retailers – QANTAS being a particularly bad offender in this regard.

I trust Mr Stevens that this information is helpful in your considerations.



David Synnott