

Peter Harris AO
Stephen King
Julie Abramson
Commissioners, Competition in Australia's Financial System Inquiry
Productivity Commission
GPO Box 1428
Canberra City ACT 2601

Via email: financial.system@pc.gov.au

20 March 2018

Dear Commissioners,

Thank you for the opportunity to respond to the Productivity Commission's Draft Report on the Inquiry into Competition in the Australian Financial System. As a major participant in the domestic and global payments system, Mastercard appreciates the opportunity to provide our views.

The Commission's Draft Recommendation 10.3, which recommends the banning of interchange fees by mid-2019, is not supported by Mastercard, and our submission mainly focusses on that issue.

Our submission also touches on Recommendation 10.4 regarding least-cost routing for dual-network debit cards.

In preparing this submission, Mastercard commissioned research from ACIL Allen Consulting to, among other things, examine the impact to the Australian payments system of removing interchange fees.

ACIL Allen's interim report finds that:

"Banning interchange fees will be counter-productive, possibly increasing the use of the most inefficient form of payment, cash, and almost certainly retarding innovation and efficiency in the payments system. This will result in considerable cost to the economy as a whole."

While this submission references ACIL Allen's interim report, we will make the full report available to the Commission once it is finalised.

It is our strong belief that regulatory settings need to support continued investment in safety and security measures, in new products and new ways to pay so that payments technology can continue to evolve to meet consumer demand and promote productivity and economic growth.

We also contend the costs of different payment types should also be signalled accurately to consumers to ensure they can make well-informed decisions before



spending. This can be done in the current regulatory environment, and does not require the removal of interchange to facilitate transparency.

We would be pleased to provide you with more detail about our role in the Australian financial system, and to share data with you to inform the development of your final report.

If you would like to discuss this submission further, or require additional information, please contact Chris Siorokos, Director Public Policy

Yours sincerely

Richard Wormald
Division President Australasia

Executive Summary

Mastercard welcomes the opportunity to respond to the Productivity Commission's Draft Report of the Inquiry into Competition in the Australian Financial System.

In providing this response, Mastercard considers the interests and perspectives of consumers, businesses, industry participants and other stakeholders in the payments system. Mastercard aims to facilitate:

- An efficient and effective payments system;
- Recognition of the value electronic payments deliver to businesses and the wider economy, which is, in the case of cards, funded largely by issuing banks;
- Protection of consumer benefits and mitigation of unnecessary cost impacts; and
- Development of evidence-based policy which considers the impact of regulation on all system participants.

Mastercard does not support Draft Recommendation 10.3 relating to banning interchange fees, and urges the Commission to abandon this recommendation.

About Mastercard

Mastercard is a technology company in the global payments industry that connects consumers, financial institutions, merchants, governments and businesses worldwide, enabling them to use electronic forms of payment instead of cash and cheques.

A typical transaction on our network involves four participants in addition to us: the cardholder, merchant (a business who accepts payment for goods or services provided), issuer (the cardholder's financial institution) and acquirer (the merchant's financial institution).

Through the Mastercard network, we enable the routing of a transaction to the issuer for its approval. After the transaction is authorised by the issuer, we help to settle the transaction by facilitating the exchange of funds between parties via settlement banks chosen by us and our customers.

Mastercard does not issue cards, extend credit, determine or receive revenue from interest rates or other fees charged to cardholders by issuers, or establish the fees charged by acquirers in connection with merchants' acceptance of our branded cards. In most cases, cardholder relationships belong to, and are managed by, our bank or financial institution customers.

Mastercard does not earn revenue from interchange.

The Australian payments landscape

Australia is an advanced, competitive market for payments. Consumers have a range of options to make payments.

It is worth noting the Australian payments system operates in a robust regulatory environment. The RBA has been regulating interchange since 2003, and in 2017 introduced an upper limit on the highest levels of interchange for both debit and credit.

The RBA's Payments System Board's decisions on interchange regulation followed extensive reviews and, while we haven't always agreed with the end decisions, we have always been appreciative of their detailed analysis.

We note that Draft Recommendation 10.3 appears to not consider the impact of the 2017 changes implemented by the RBA.

Electronic payments are driving innovation and opening new markets

Advances in payment technology have largely been driven by the incumbent payments networks operators.

The development of secure digital payments technology has allowed businesses and consumers to safely buy and sell goods and services online. This has enabled business to maximise opportunities to sell more products and participate in the global marketplace.

Meanwhile, innovations like contactless payments have enhanced customer and merchant sales experiences, particularly in high-traffic stores where fast transaction times are desirable.

A good example of investment in innovation that improves not only the efficiency of the overall payments system, but of the public sector as well is 'open-loop' transit ticketing. Open-loop ticketing allows commuters to use their existing payment cards or payment enabled device to 'tap on' and 'tap off' public transport instead of using a 'closed-loop' card like Sydney's Opal or Melbourne's Myki.

More than 100 cities around the world use Mastercard-enabled contactless technology in their public transport operations. Sydney is the first Australian city to adopt Mastercard-enabled open-loop ticketing, with Sydney Ferries and light rail services now allowing commuters to tap and travel using a payment card or payment enabled device.

Open loop ticketing means improved access to a city's public transport system for visitors and occasional users who can simply use a card, already in their possession, to ride. During a six month open loop trial on the Manly ferry, cards from over 42 countries were used to tap on.

A commuter being able to tap on to public transport with their scheme debit or credit card should lead to an increase in fare collection. Forgetting your dedicated public transport payment card or running too late to purchase a ticket from a machine will no longer be a barrier to paying a fare, making it easier for commuters to do the right thing.

Open loop means transport authorities no longer have to dedicate significant time or resources to fare collection, which means they have more time and resources to improve the public transport system to make it more reliable, easier and safer for commuters to get around.

A key metric in ticketing systems is cost of fare collection (COFC). Transit authorities can substantially reduce their COFC by using existing card payments infrastructure. In London, where commuters have been able to tap and go with their credit and debit cards on public transport since 2012, COFC in London has declined from around 14 per cent of revenues to just below nine per cent, with expectations this will fall further to around six per cent.¹

To put this in to perspective, London's transport authorities expect fare revenue of around £4.8 billion in 2017/18.² Moving from smart cards to tap and go delivers massive savings that can be invested in better, safer and more frequent services.

Using global payments network technology delivers real operational efficiencies and a better customer experience.

But, the types of investments that deliver outcomes like the one described above need to be funded. Interchange is critical to this process, and without it, innovation would be stifled.

Interchange fees are a critical component of the payments system

Interchange represents a shared distribution of a portion of payments system costs among the issuers and acquirers participating in our four-party payments system. Interchange is applied in all markets and plays a critical role in the viability of international credit card and debit card systems.

Interchange fees reflect the value merchants receive from accepting electronic payment products and play a key role in balancing the costs consumers and merchants incur. Generally, interchange fees are collected from acquirers and paid to issuers to reimburse the issuers for a portion of the costs incurred.

These costs are incurred by issuers in providing services that benefit all participants in the system, including acquirers and merchants, whose participation in the network enables increased sales to their existing and new customers. Other

¹ Contactless Payments and Open-Loop Ticketing- LEK and Mastercard Special Report, 2016 Page 2

² Transport for London- How we are funded. <https://tfl.gov.uk/corporate/about-tfl/how-we-work/how-we-are-funded>

efficiencies include the delivery of existing and new products, guaranteed payments and improved experience for their customers.

We establish “default interchange fees” that apply when there are no other established settlement terms in place between an issuer and an acquirer.

Mastercard administers the collection and remittance of interchange fees through the settlement process. Mastercard does not earn revenue from interchange fees.

Additionally, Mastercard’s interchange fees and categories are completely transparent, and published on our website.

Interchange delivers benefits to consumers, merchants and governments

Interchange delivers tremendous economic value by funding the investments that make electronic payments more secure, efficient, traceable and flexible than other types of payment.

For consumers:

- Safety and security – interchange covers the cost of fraud protection, so cardholders are protected in the rare event of a fraudulent transaction. For example, in the event of a stolen card, Mastercard cardholders are protected from fraud or unauthorised transactions under Mastercard’s Zero Liability Policy. Investment in EMV chip technology has also enhanced the anti-fraud capability of cards, making them almost impossible to counterfeit and adding an additional layer of protection not possible with magnetic stripe cards.
- Flexibility – not only does interchange allow businesses to accept cards, it pays for the interest free days on credit cards.
- Convenience – electronic payments allow consumers to access money whenever and wherever they want, and provide a more secure and efficient way to pay, whether in-person, online or in-app.

For merchants accepting cards:

- Interchange facilitates the use of electronic payments which pay for the benefits businesses receive. When compared to acceptance of cash, the additional value provided to retailers by electronic payments is two to three times the total cost of acceptance.³
- Retailers get guaranteed payment when they accept credit cards, freeing them from the worry of credit risk; that is, the business gets paid within 24-48 hours irrespective of whether the cardholder repays the issuer of the card. Every year, issuing banks write off 2-4% of credit card balances as losses – a cost which would almost unavoidably sit with retailers without interchange⁴.
- Accepting cards reduces the significant costs associated with counting, safeguarding and transporting cash and limiting the losses that occur when cash received is lost or stolen.

³ Peter T Dunn & Company Research, 2016

⁴ Rodgers, David: “Credit Losses at Australian Banks: 1980-2013”; *Reserve Bank of Australia Research Discussion Paper*, May 2015. pp 21.

- Studies show that consumers spend more when they use cards and businesses make more money when they accept cards:
 - Debit and credit transactions are about two to six times larger than cash purchases⁵
 - Premium credit products result in larger transactions whose revenues and contribution to profit more than offset any additional costs of acceptance.

For Governments:

- Transparency and traceability of payments – electronic payments are an important means of reducing the black economy and providing oversight for tax purposes.
- Economic participation – electronic payments provide the necessary infrastructure for citizens and businesses to interact in a financial ecosystem which facilitates economic activity. This includes e-commerce, which enables Australian businesses to trade with anyone around the world.
- Facilitating government payments – Government and the public sector are major beneficiaries of interchange as they utilise many different payment options including commercial cards.

The role of interchange in an efficient, competitive payments system

Interchange plays a critical role in supporting competitiveness, productivity and consumer choice in the payments component of the financial system.

Mastercard sets interchange taking relevant considerations into account, such as the nature of the particular payment stream, the costs of the recipients of interchange and the levels of cardholder usage and merchant acceptance.

The interchange level can be deemed appropriate when it is set:

- Low enough for merchants to realise the economic benefits of accepting cards; and
- At a level that fairly compensates issuers for the costs involved in issuing cards.

Balancing the network of payments is therefore a complex process, which is best dictated by market forces. Limits on interchange (for example, artificially lowered weighted averages or hard caps) upset this balance and distort price signals to system participants

Rather than lowering overall costs in the payments system, regulated interchange has shifted fixed costs away from merchants – who get significant value from accepting cards - and on to other parties participating in the system, especially cardholders and consumers.

⁵ Peter T Dunn & Company Research, 2016

Furthermore, there is no evidence merchants pass on cost savings from regulated interchange through reduced prices for goods or services.⁶

Research on the impact of interchange regulation, including on the Australian experience, shows regulation imposes further detriments on consumers in the form of higher card fees, higher interest rates and a reduction in the availability of low-cost banking options.⁷

International experience amply demonstrates the negative consequences of interchange regulation for consumers, and for competition and choice in the payments market:

United States

- Debit interchange rates were capped in 2011 under the *Durbin Amendment* (as part of the *Dodd-Frank Act*) with the aim of reducing costs for merchants and consumers.
- Instead this led to increased banking costs through higher deposit fees⁸ and the introduction of annual debit card fees.⁹
- Few merchants were found to have reduced prices or debit restrictions as their debit cost acceptance decreased.¹⁰

Spain

- A reduction in interchange fees by more than 55% between 2006 and 2010 led to an increase in Spanish consumer costs by 50% (€2.35 billion in absolute figures).
- Research shows lowering interchange rates "*disturbed the necessary balance of the electronic payment system market and... damaged the majority of participants and society as a whole*".¹¹

European Union (EU)

- After the EU introduced hard caps on credit and debit interchange, the regulation was met with resistance from various stakeholders, including consumer groups who argued that the cap would lead to higher banking fees and no meaningful reduction in merchant prices.¹²
- Following implementation of the caps, issuers responded promptly by reducing their rewards value, rationalising their product set and relying more on fees to

⁶ In the United States, executives at major retailers have told investors that interchange regulation has generated a considerable financial benefit for their companies. See, for example, <https://seekingalpha.com/article/205872-target-corporation-q1-2010-earnings-call-transcript> and <http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9ODMwMTB8Q2hpbGRJRjRD0tMXxUeXBIP>

⁷ See, for example, Manuszak, M. and Wozniak, K. (2017) "The Impact of Price Controls in Twosided Markets: Evidence from US Debit Card Interchange Fee Regulation," Finance and Economics Discussion Series 2017-074; Chan, I., Chong, C., and Mitchell, S., 'The Personal Credit Card Market in Australia: Pricing over the Last Decade,' *RBA Bulletin*, March 2012; Europe Economics, 'The Impact of Interchange Fee Regulation', September 2014;

⁸ Kay, B., Manuszak, M., Vojtech, C. (2013) 'Bank Profitability and Debit Card Interchange Regulation: Bank Responses to the Durbin Amendment', Federal Reserve Bank of Boston, p. 5

⁹ McGinnis, P. (2013) 'Misguided Regulation of Interchange Fees: The Consumer Impact of the Durbin Amendment', *Loyola Consumer Law Review*, vol. 25, no. 2, p.306

¹⁰ Study conducted by the Federal Reserve Bank of Richmond and Javelin Strategy & Research, found in Mitchell, N., Schwartz, S., Wang, Z. (2014) 'The Impact of the Durbin Amendment on Merchants: A Survey Study', *Economic Quarterly*, vol. 100, no. 3, p.184

¹¹ This is supported by Iranzo, J., Fernández, P., and Matías, G., and Delgado, M., 'The Effects of the Mandatory Decrease of Interchange Fees in Spain', 2012, viewed online at: http://mpr.ub.uni-muenchen.de/43097/1/MPRA_paper_43097.pdf

¹² Joint statement by consumer bodies expressing concerns about European Commission proposal to regulate interchange on card transactions: <http://www.parliament.uk/documents/commons-committees/european-scrutiny/Consumer-bodies.pdf>

drive product revenues. Research conducted by First Annapolis Consulting¹³ observed the following:

- Higher annual fees – in major markets such as France, Spain, Italy and Portugal, almost half of the top five to six issuers have raised their annual card fees. In Spain, the average increase in annual fees was as high as 26%. In Germany, several large, well known issuers are now charging on average 20% more than they did at the beginning of 2016.
- Increased APRs – issuers in Portugal, Poland and Italy have increased their APRs by 30, 100 and 131 basis points respectively.
- Less generous rewards programs – Czech bank Ceska Sporitelna eliminated its 1% cash back on credit card purchases except for e-commerce and foreign purchases, and Raffeyen has reduced its monthly cash back rewards on premium cards from CZK 1,000 to CZK 250.
- Higher fees on associated services – some European card issuers raised fees on other services such as when consumers choose their PIN numbers. Others increased ATM cash withdrawal fees on some cards.

France

- In France, Europe Economics research¹⁴ has forecast interchange caps will:
 - Create financial instability for issuing banks leading to a €418m increase in cardholder bank fees and no reduction in prices for consumers; and
 - Deteriorate competitive conditions within the card sector and reduce incentives for issuers to innovate for bank cards.

The impact of banning interchange

For the reasons outlined above, Mastercard does not support draft Recommendation 10.3.

If interchange were banned, system costs do not simply disappear. The system would still need to fund these costs and the evidence from here and overseas shows consumers being worse off in the form of higher fees, higher interest rates, shorter interest-free periods and a curtailment of rewards offerings.

Banning interchange fees will indisputably be bad for the Australian economy.

Modelling undertaken by ACIL Allen on behalf of Mastercard has found that banning interchange would result in a one-off reduction in household private consumption of \$6 billion and a decline of \$507 million in real GDP in the first year.

Over an assessment period of 10 years, the modelling projected that banning interchange would see the Australian economy lose an average of nearly 2,000 full time equivalent jobs annually.¹⁵

¹³ Data sourced from First Annapolis Consulting European Card Research 2016. See: <http://www.paymentscardsandmobile.com/six-months-interchange-regulation-card-products-changed/>

¹⁴ Europe Economics, 'The Impact of Interchange Fee Regulation', September 2014, p. 21-32

¹⁵ ACIL Allen, Payment Systems and Interchange Fees, Interim Report to Mastercard, March 2018, pp. 14-18.

Additionally, the ACIL Allen research questions the Productivity Commission's assumptions that underpin the recommendation to ban interchange.

For example, page 239 of the draft report states that;

"The actual cost of an additional transaction on a card network is negligible."

However, the ACIL Allen research points out that:

"...the PC's statement that the additional cost of one more transaction is negligible is only true if the capacity of the system is taken as given. But the capacity of the system cannot be taken as given. According to the PSB,¹⁶ the number of debit card transactions grew by 13.2 per cent per year, on average, from 2011-12 to 2016-17. The average growth rate for the number of credit card transactions was 8.7 per cent over the same period. These additional transactions cause system costs to rise, and these costs have to be recovered..."

Thus, the PC's conclusion that the cost of additional transactions on a card network is negligible (and hence that interchange fees should be zero) is not supported by the data."¹⁷

Current regulatory and transparency for users

Regulatory framework demonstrates the cost of electronic payments

Transparency around the cost of different payment methods is important as it allows all participants in the payment system to understand how much it costs them to utilise a particular payment method.

Card schemes are required by the RBA Standards on *The Setting of Interchange Fees in the Designated Credit Card Schemes and Net Payments to Issuers*¹⁸ ("the Standards") to publish a schedule of its interchange fees that will apply to transactions that are acquired in Australia and are initiated with a card issued within Australia.

In accordance with the Standards, Mastercard publishes a schedule of interchange categories and the associated rate for each transaction on our website.

Businesses also have additional information on the cost of accepting card transactions via the issuing banks. Many banks offering merchant services publish their pricing plans for businesses looking to accept electronic payments. Once a business has selected their chosen bank, it is provided with further resources on associated costs as part of their commercial arrangements.

¹⁶ PSB, Trends in Payments, Clearing and Settlement Systems, PSB Annual Report, 2017.

¹⁷ ACIL Allen, Payment Systems and Interchange Fees, Interim Report to Mastercard, March 2018, page 4.

¹⁸ Clause 6.1 of the Reserve Bank of Australia's *Standard No.1 of 2016 - The Setting of Interchange Fees in the Designated Credit Card Schemes and Net Payments to Issuers* and clause 6.1 of *Standard No.2 of 2016-The Setting of Interchange Fees in the Designated Debit and Prepaid Card Schemes and Net Payments to Issuers* made under the Payments Systems (Regulation) Act 1998.

Limited information available about cost of other payment methods

On the other hand, consumers and businesses have few resources to indicate the cost of other payment methods, particularly for the use of cash. Cash is often incorrectly assumed to be free for consumers to use and for businesses to accept. This understanding fails to take into consideration the additional security and handling costs associated with currency, as well as the limited options for recourse in the event of fraud.

In a 2014 paper, the RBA estimated the average direct cost of using cash was about \$0.48 per transaction.¹⁹

The cost is borne by various participants in the transaction:

- Merchants incurred \$0.27 in accepting cash, with two-thirds of that accounting for the time taken to process cash transactions;
- Merchants and financial institutions incurred around \$0.20 while distributing cash; and
- \$0.01 was spent on the cost of cash and coin production by the public sector.

In comparison, the RBA estimated the cost to merchants to process card transactions where the card is present were \$0.52 for credit cards and \$0.25 for debit cards.²⁰ While the cost of accepting cash and card payments is broadly comparable, card payments provide tremendous extra value.

Surcharging and transparency

In the draft report and during the Commission's public hearings, the issue of surcharging, and differential rates of surcharging, was raised.

Applying a surcharge does not recognise the tremendous value that card acceptance delivers to merchants - which is several times greater than the cost of acceptance.

However, we do acknowledge that some businesses choose to surcharge to recover the costs of acceptance. So, there is a simple mechanism available to merchants to transparently recover their costs of card acceptance.

As Gans and Commissioner King pointed out in a 2002 paper:

"...when surcharging occurs the interchange fee is neutral, and hence, both association attempts to increase profits and regulatory intervention to improve welfare will be fruitless."²¹

The ACIL Allen research commissioned by Mastercard points out that:

¹⁹ Reserve Bank of Australia, *The Evolution of Payment Costs in Australia*, page 23

²⁰ Reserve Bank of Australia, *The Evolution of Payment Costs in Australia*, page 30

²¹ Gans and King, *A Theoretical Analysis of Credit Card Regulation*, 2002, page 23.

"...the Gans and King analysis shows that, whatever the socially optimal interchange fee is for card transactions, it is not zero, as recommended by the PC in its Draft Report."²²

According to the draft report, most merchants do not surcharge:

"for fear of losing business to competitors" (p.273).

While that may be true, it is also true that merchants don't surcharge because they recognise the value accepting card payments provides.

It is worth noting that as part of the regulations overhauling surcharging, acquirers are required to set out costs of acceptance – as a percentage – for different payment types in monthly merchant statements. This means that merchants receive cost information by scheme and card type.

As ACIL Allen point out:

"An apparent concern of the PC is the inability of merchants to surcharge differentially when they are presented with high resource cost cards (e.g. premium cards with generous associated points schemes). But there are no technical barriers for them to surcharge differentially. It is possible for merchants to receive, in real time, information that says that they are going to charge a higher merchant service fee (MSF) if they accept a particular card. If so, then the PC's concerns about high resource-cost card holders being cross-subsidised by low resource-cost card holders are a non-concern."

Interchange is only one component of the small cost of accepting electronic payments. Mastercard's interchange rates and categories are completely transparent, and published on our website.

One issue for small businesses could be the transparency of the other costs that make up a merchant service fee.

The issue of information asymmetry as it relates to the broader issue of the market power of acquirers over small merchants appears to be one of the factors underpinning the Commission's recommendation.

However, as the ACIL Allen research points out;

"...banning interchange fees is not the way to fix a market power problem in the payments system."²³

²² ACIL Allen, Payment Systems and Interchange Fees, Interim Report to Mastercard, March 2018, page 6.

²³ ACIL Allen, Payment Systems and Interchange Fees, Interim Report to Mastercard, March 2018, page 7.

The ACIL Allen research also questions the Commission's contention that the best payments system is the cheapest payments system:

"The premise that the lowest cost payments method is the best ignores the quality of different payment methods. Low cost is not the same thing as efficient. Economic efficiency requires instead the alignment of cost and value."²⁴

Least-cost routing for dual-network debit cards

The Commission's draft report refers to the dominance of the international schemes. It states:

"Card payment systems are dominated by the major banks (as the issuers of over 70% of Australia's debit and credit cards), and the global card schemes, Mastercard and Visa (which enable over 80% of credit card payments)."

eftpos is the dominant card brand in Australia. According to their own website, there was an average of more than 5.4 million eftpos transactions a day in 2016/17. It's worth noting that there are only nine issuers of Mastercard debit cards in Australia, while eftpos is the most issued debit card.

Mastercard is working with our customers to support the Reserve Banks efforts relating to least-cost routing of transactions on contactless debit cards. Indeed, we believe that, for low value debit transactions, Mastercard is already lowest cost, and we intend to remain competitive in a least-cost routing environment.

Any price impact for merchants because of least-cost routing is unlikely to be material. One industry participant suggests that a shift to least-cost routing could save merchants an average of six per cent on their merchant service fee – with savings to vary between merchants depending on a range of factors.²⁵

So, based on the RBA's average merchant cost of 0.59 per cent for debit, on the sale of a \$3.50 cup of coffee a retailer will save on average \$0.0012 in merchant service fees per transaction. On a \$10.00 sale a merchant will save \$0.0035 and on a \$20.00 transaction they will save \$0.0071.

Conclusion

Australia is a mature payments market. Policy measures supporting open competition in payments will yield positive outcomes for consumers, businesses and the broader Australian economy by driving investment in customer-focused innovation and improving the productivity of payments as a component of the broader financial system.

²⁴ ACIL Allen, Payment Systems and Interchange Fees, Interim Report to Mastercard, March 2018, page 7.

²⁵ Tyro media release – "Tyro first-to-market ahead of government deadline on contactless payments", 12 March, 2018

Interchange regulation is a prime example of a market intervention resulting in sub-optimal outcomes, particularly for consumers.

Artificially lowering or removing interchange does not cause the costs associated with electronic payments to disappear. These costs are recovered in other ways, typically from consumers through higher fees, higher interest rates and reduced benefits.

Further, there is no evidence businesses pass on cost savings from artificially-lowered interchange through lower prices for their goods or services.

Experience from Australia and around the world shows that intervention to lower interchange jeopardises acceptance and use by reducing incentives to use cards.

Likewise, surcharging regulations, by singling out electronic payments, fail to adequately signal the real costs involved in all types of payments. In particular, the real costs of cash are obscured by these regulations, as it appears to be "free" in comparison to cards.

We look forward to working with the Commission on the delivery of policy recommendations to promote competition, efficiency and productivity in the payments component of the Australian financial system.

To that end, we urge the Commission to abandon recommendation 10.3.