

AIRPLUS SUBMISSION: PRODUCTIVITY COMMISSION DRAFT REPORT

About AirPlus International

- 1 Lufthansa AirPlus Servicekarten GmbH (**AirPlus**), headquartered in Germany, is one of the leading global providers of business travel management solutions (including payment solutions). AirPlus is a wholly-owned subsidiary of Lufthansa.
- 2 AirPlus is a registered payment institution in Germany pursuant to the revised European Payment Services Directive and AirPlus is supervised by the German Federal Financial Supervisory Authority and Deutsche Bundesbank (the German central bank).
- 3 Business travel management solutions are offered by AirPlus, either cross-border, through a branch or a local subsidiary, in more than 70 countries. AirPlus provides its services exclusively to corporate customers. In other words, AirPlus operates only a B2B model. The AirPlus customer portfolio consists of global companies seeking to optimise their business travel management by reducing costs and streamlining internal accounting processes.
- 4 In Australia, AirPlus operates via a branch office, and holds an Australian Financial Services licence.

Background

- 5 The Australian government has commissioned the Productivity Commission to undertake an inquiry into competition in Australia's financial system.
- 6 In January 2018, the Productivity Commission released a draft report on 'Competition in the Australian Financial System'.
- 7 The Productivity Commission has sought comments on the draft report.

AirPlus Submission

- 8 In its draft report the Commission calls for the Payments System Board of the Reserve Bank of Australia (**RBA**), to ban, by mid-2019, all card interchange fees as a way to lower overall costs to users and that remaining fees should be directly related to the costs of operating the system. Such fees should be made transparent and published.
- 9 AirPlus does not support this recommendation.
- 10 The Payments System Board, one of two boards of the RBA, is responsible for the RBA's payments system policy. The Board is required to exercise its responsibilities in a way that 'best promotes competition in the market for payment services, consistent with the overall stability of the financial system'.
- 11 In accordance with Section 18 of the Payment Systems (Regulation) Act 1998, the RBA may, in writing, determine standards to be complied with by participants in a designated payment system if it considers that determining the standards is in the public interest.
- 12 On 26 May 2016, the RBA updated Standards 1 and 2 and introduced Standard 3. Standards 1 and 2 deal with the setting of interchange fees in designated card schemes and Standard 3 deals with merchant surcharging.

- 13 These changes were introduced following the publication of a 'Review of Card Payments Regulation' by the RBA in May 2016. In this publication, it is recorded that the changes to the framework implemented in the Standards were 'founded in the Board's earlier decisions to constrain interchange fees through regulation in order to reduce the distorted price signals provided by interchange fees that differed from system to system'.
- 14 The changes to the interchange Standards were implemented in parallel with the introduction of the surcharging Standard which was directed at 'preventing excessive surcharging and providing merchants with more easily understandable information on their card acceptance costs'.
- 15 The European Union (EU) has recognised the need for an approach to the application of interchange on corporate cards given the particular features of the market for payments services to corporate customers. Relevantly, the caps on interchange fees introduced in EU Regulation 2015/751, which came into effect in 2015, do not extend to corporate cards. Further, the market for corporate cards is a 'niche' one, contributing little to the overall payment landscape. This should be recognised in Australia, as in Europe.
- 16 Unlike consumer cards, corporate cards are strictly limited to business use. In the case of AirPlus, use is limited by selected Merchant Category Codes (MCCs) to payments for travel or accommodation booked by corporate customers.
- 17 In all cases it is the traveller's employer who settles payments made using an AirPlus virtual corporate card. Transactions initiated using the card are accordingly strictly B2B and these cards are not cross-subsidised by consumers. Corporate customers are more likely to take into account the amount of surcharge likely to be applied to card payments, in addition to the upfront costs charged by card issuers, in selecting a card scheme or payment option.
- 18 Further, virtual and non-virtual corporate cards offer benefits to corporate clients that provide value to the procurement and finance functions of those clients, such as system integration, spend reports, bespoke finance software and a dedicated focus on the management of corporate expenditure. AirPlus provides such services to its corporate clients.
- 19 Interchange helps smaller card issuers such as AirPlus cover the eligible costs they incur, including processing and authorisation, fraud and fraud protection, and funding of the interest-free period on transactions.
- 20 Interchange in general provides convenience, security and fraud protection, increased sales and guarantees that retailers are paid even when the cardholder does not repay their card issuer.
- 21 The Productivity Commission's recommendations do not take into consideration this value to corporate customers as a group, or to the system generally.
- 22 Further, the consequences of a ban on interchange has been, in our view, underestimated. For example, in practice issuers will undoubtedly seek to offset losses caused by an interchange fee ban by, for instance, introducing or increasing card fees or shortening finance days. As such an interchange fee ban could adversely impact cardholders and undermine attempts to decrease costs for cardholders.
- 23 Further, a ban could hinder competition within the payment industry, stifling innovation in the process. Large, multi-business line issuers who dominate the market and operate in multiple sectors and countries will find a means of mitigating potential losses caused by a ban on interchange fees. For these issuers, the ban represents an inconvenience.

- 24 Smaller, regional or specialised issuers, on the other hand, will suffer revenue losses as a result of the proposal that will require a more radical restructure of their business models. This will threaten the existence and/or substance of the smaller players, many of whom are providing innovation and specialisation in the card market and, accordingly, could adversely affect the development of the cards market in Australia.
- 25 This stands to limit the payment and corporate expense management options available to corporate customers.
- 26 It makes little sense to interfere in corporate dealings, where the welfare of consumers is not at stake.
- 27 AirPlus is of the view that the proposals in the draft report:
- 27.1 may not have the desired outcomes for the reasons outlined in this document; and
- 27.2 do not take into account the full value proposition of corporate cards, in particular, and the potential impact on innovation and specialisation.
- 28 There is an existing, recently reviewed, regulatory framework to address competition in the market for payment services. There is no evidence to suggest that competition will be enhanced by a ban on interchange. This is particularly so for interchange on corporate cards.