



**Submission to Reserve Bank of Australia  
Payments System Board  
Strategic Review of Innovation in the Payments  
System**

**August 2011**

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## **ABOUT CHOICE**

CHOICE exists to unlock the power of consumers. Our vision is for Australians to be the most savvy and active consumers in the world.

As a social enterprise we do this by providing clear information, advice and support on consumer goods and services; by taking action with consumers against bad practice wherever it may exist; and by fearlessly speaking out to promote consumers' interests - ensuring the consumer voice is heard clearly, loudly and cogently in corporations and in governments.

To find out more about CHOICE's campaign work visit [www.choice.com.au/campaigns](http://www.choice.com.au/campaigns) and subscribe to CHOICE Campaigns Update at [www.choice.com.au/ccu](http://www.choice.com.au/ccu).



## **Executive Summary:**

CHOICE supports ongoing innovation in the payments system to deliver genuine benefits for consumers. While consumers will continue to need a range of payment options, CHOICE is concerned that some proposed changes in the payments system are not focused on benefits to consumers. Consumers need a payments system that delivers fair, affordable, secure, timely and transparent payment services.

We have taken a broad view of the issues for consultation to give a consumer voice to the review and make the following recommendations:

***Recommendation 1:*** CHOICE recommends that the RBA conduct comprehensive consultations with consumers on the future of cheques.

***Recommendation 2:*** CHOICE recommends that consumers should have the option to opt-out of new payment technologies.

***Recommendation 3:*** CHOICE recommends that for online merchants that apply credit card surcharges, wherever a headline price is advertised, it is accompanied by clear disclosure of the surcharges that apply.

***Recommendation 4:*** CHOICE recommends that the RBA consider future options for ensuring headline prices are achievable for the vast majority of consumers.

***Recommendation 5:*** CHOICE recommends that innovations in the payments system in Australia ensure security and privacy of consumer data whilst giving consumers enhanced access to their own data.

***Recommendation 6:*** CHOICE recommends that the RBA investigate the economy-wide efficiencies and benefits of a centralised payments system.

***Recommendation 7:*** CHOICE recommends that fully portable account numbers be the ultimate goal of the Australian payments industry.



## **Introduction**

-We are definitely in a time where it is not how the customer chooses how they are going to pay, but how they merchant forces you to pay.<sup>1</sup>

CHOICE appreciates the opportunity to provide the following comments to the Reserve Bank of Australia's Strategic Review of Innovation in the Payments System: Issues for Consultation, June 2011.

Previous communication from CHOICE on innovation in the payments system includes the July 2011 Submission to the Reserve Bank of Australia (RBA) Payments System Board Consultation on Card Surcharging and the 2002 Australian Consumers' Association Response to the RBA's Draft Standards and Access Regime for Credit Card Schemes.

CHOICE supports ongoing innovation in the payments system to deliver genuine benefits for consumers. While consumers will continue to need a range of payment options, CHOICE is concerned that some proposed changes in the payments system are not focused on benefits to consumers. Consumers need a payments system that delivers fair, affordable, secure, timely and transparent payment services.

## **Traditional payment methods**

While consumers have been adaptable to new technologies, it is likely that the need for traditional payment methods will continue including for both cash and cheques. RBA figures indicate that around 22 million cheques are currently used in Australia each month.<sup>2</sup> In the UK, with a population three times the size of Australia, around 4 million cheques are written each business day. However in the UK, the decision to phase out cheques was recently reversed following strong feedback from consumers in support of retaining cheques.<sup>3</sup>

Of particular concern is data from the RBA's Consumer Payments Use Study which showed that 40% of people who used cheques did so because they did not have another option and that the over 60s use cheques disproportionately more than other age groups.<sup>4</sup> While there may be some scope to support groups at-risk of financial exclusion

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<sup>1</sup> Comment on CHOICE Facebook page, viewed 31 August 2011.

<sup>2</sup> 29 July 2011, Reserve Bank of Australia – Submission to ACPA's consultation paper on the role of cheques in an evolving payment system, p. 2, viewed 30 August 2011.

<sup>3</sup> 24 August 2011, Which?, 'Future of Cheques' report calls for changes, <http://www.which.co.uk/news/2011/07/victory-for-consumers-as-cheques-win-reprieve-258675/>, viewed 30 August 2011

<sup>4</sup> June 2011, Reserve Bank of Australia, *Strategic Review of Innovation in the Payments System: Issues for Consultation*



to adapt to new technologies, some people will find it extremely difficult to access alternatives.

Any move to reduce or remove the availability of cheques poses a raft of potential concerns for consumers. Given this, the RBA needs to engage in comprehensive consultations with consumers on the consequences of phasing out cheques, particularly for older Australians who rely on cheques to make payments. This is increasingly important as the use of digital technologies escalates and some key groups of people risk being left behind without access to essential services including payment systems.

**Recommendation 1:** CHOICE recommends that the RBA conduct comprehensive consultations with consumers on the future of cheques.

### **Ability to opt-out of new technologies**

A further concern for CHOICE is where consumers are not able to opt out of new payment technologies. There is some anecdotal evidence that this is already occurring with some banks no longer issuing EFTPOS only cards, instead using a scheme debit card. Another example is that of new credit cards being issued with near field communication embedded and we understand that there is no way to opt out of this technology.

If consumers do not have a meaningful choice of which payment options to access, the payments industry will not get the appropriate signals to develop the products consumers want. Where consumers do not have the ability to opt out of payment technologies, questions remain about who the chief beneficiaries are of developments in payment system technologies - consumers, payment system providers, merchants or government? As a recent comment on the CHOICE Facebook page asked:

-I've got to say I don't like this tap & Go thing either ..... I don't like the idea of not having to put in a pin or sign, it's my money and I should have complete control of it.... not the retailer! Is there a way to fight back against this new payment system?<sup>5</sup>

**Recommendation 2:** CHOICE recommends that consumers should have the option to opt out of new payment technologies.

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<sup>5</sup> Comment on CHOICE Facebook page, viewed 30 August 2011.



## Headline price distortion

With the introduction of more user-pays payment systems, CHOICE is concerned that the headline price - that is, the price consumers see - is increasingly meaningless and unachievable. While some merchants are able to technically meet the legislative requirements, this is often through accepting niche payment systems that are not widely used.<sup>6</sup> Moreover, although consumers are generally not supportive of surcharging, the majority report having paid a surcharge when last presented with one, suggesting the availability of convenient, no-cost payment options is limited.<sup>7</sup> Consumers are increasingly concerned that surcharges have become a revenue stream rather than a way to recover costs. As a CHOICE member recently commented:

I think it's fair for retailers/sellers to recover their costs on credit cards but it's obvious some are using this as another way of adding to profits. The airlines are a particular bugbear of mine - especially the ones that do not offer an alternate method of payment like bpay or debit card.<sup>8</sup>

CHOICE continues to believe that payment surcharges can provide price signals to consumers on the costs of different payment methods, thereby encouraging competition and innovation in the payments system and putting downward pressure on transaction costs. This has become more pressing with the increase in Internet shopping where a widely accepted online payment method not reliant on credit cards is becoming increasingly important. As stated in CHOICE's recent submission to the review of credit card surcharging, we believe consumers need a widely available non-credit online payment option that offers the same convenience as credit cards, including real time authorisation.

Without easily accessible payment alternatives and clear entry-point surcharging signals, payment system monopolisation may lead to excessive surcharges as an avenue for additional revenue raising. CHOICE recognises that the retail environment is fast moving towards a scenario where almost every payment choice may attract a surcharge. In these circumstances, headline prices will be potentially misleading to consumers.

**Recommendation 3:** CHOICE recommends that for online merchants that apply credit card surcharges, wherever a headline price is advertised, it is accompanied by clear disclosure of the surcharges that apply.

**Recommendation 4:** CHOICE recommends that the RBA consider future options for ensuring headline prices are achievable for the vast majority of consumers.

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<sup>6</sup> CHOICE Report: *Credit Card Surcharging in Australia*, prepared on behalf of NSW Fair Trading, 2009, p. 18

<sup>7</sup> CHOICE Report: *Credit Card Surcharging in Australia*, prepared on behalf of NSW Fair Trading, 2009

<sup>8</sup> July 2011, CHOICE member comment on *It's time to end excessive credit card surcharging* blog, viewed 25 August 2011.



## Consumer empowerment in digital security and privacy - moving from a 'need to know' to 'right to know'

Current innovations in payments systems rely on electronic systems and many of these systems capture details of consumer behaviour. Consumers frequently, though at times inadvertently, agree to have their shopping preferences and demographic data captured by merchants as part of loyalty schemes. These details are then data mined to make tailored offers to consumers. Databases of consumer behaviour are growing in size and importance to business and the development of new payment systems needs to prioritise safeguards for digital privacy with consumers given control over their digital fingerprint.

CHOICE wants consumers to be more empowered in their decision making through simple access to this data. As with the 'mydata' trial in the UK, access to data in Australia has to change from a 'need to know' to a 'right to know' culture. Using developments in technology to give consumers meaningful access to the data held on them by telecommunications providers, electricity retailers, supermarkets and many other businesses needs to be a priority as payments systems are developed. In the UK the aim is to have this data easily used by a trusted third party to advise consumers of the best deal to suit their actual needs through technology including smart phone applications.<sup>9</sup>

**Recommendation 5:** CHOICE recommends that innovations in the payments system in Australia ensure security and privacy of consumer data whilst giving consumers enhanced access to their own data.

## Consumer mobility

Innovations in the payments system need to support and encourage competition. A key aspect to improving competition is to ensure that consumers face no barriers to mobility in both payment systems and bank accounts. Fully portable bank account numbers would potentially create substantial efficiency improvements by eliminating administrative costs for both consumers and business when people switch banks and payment systems in search of a better deal to meet their needs. The continuing lack of a centralised payments system limits consumer mobility and if this continues into the future, competition between payment systems will be unnecessarily suppressed.

CHOICE is supportive of the Federal Government's recent announcement of 'tick and flick' reforms that will make it easier for consumers to switch bank accounts from 1 July

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<sup>9</sup> Cabinet Office, Department for Business Innovation & Skills, 2011, *Better Choices: Better Deals Consumers Powering Growth*, viewed 25 August 2011



next year. However, CHOICE regards this as an interim step towards the ultimate goal of full bank account portability.

CHOICE is disappointed that the Australian Government's recent feasibility study of cost-effective switching arrangements did not consider the economy-wide efficiencies and substantial benefits for every third party that comes into contact with a consumer's bank account, nor of the other potential benefits such as enhanced provision of information that would be enabled by a centralised payments system. However, we also note that Mr Fraser's report cites the RBA Strategic Review of Innovation in the Payments System as the appropriate context in which to review those larger issues that may relate to full account portability.<sup>10</sup>

With this in mind, CHOICE believes that innovations in the payments system must be based around consumer choice and mobility with few or no barriers to access or change. As payment system providers, including banks, make investment decisions around information architecture, fully portable account numbers need to be incorporated. Any cooperation between payment system providers, including banks, should be premised on fully portable account numbers being accommodated. In the Better Banking report, CHOICE has called for an obligation on banks to provide affordable access to payments systems and CHOICE recognises that some close cooperation by payment system providers may be necessary to achieve this.<sup>11</sup> CHOICE will support collective initiatives by industry on this issue, subject to authorisation by the ACCC.

**Recommendation 6:** CHOICE recommends that the RBA investigate the economy-wide efficiencies and benefits of a centralised payments system.

**Recommendation 7:** CHOICE recommends that fully portable account numbers be the ultimate goal of the Australian payments industry.

## Summary

The ability to make and accept payments is central to fully participating in today's society. With rapid developments in technology, there are expected to be a variety of new payment options each with its own advantages. CHOICE supports consumers having access to a range of payment options that provide affordable, secure and timely avenues to purchase goods and services. Innovations in payments systems need to ensure that consumers can move through changes in the payments landscape fairly, with confidence and with the benefits of enhanced access to their own purchasing data.

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<sup>10</sup> 4 July 2011, BW Fraser, *Banking services: cost-effective switching arrangements*, p. 10

<sup>11</sup> March 2011, *CHOICE Better Banking Report*, accessed at <http://www.choice.com.au/bankingreport>