

THE CHANGING PAYMENTS LANDSCAPE



While Australians recognise the name, many don't know how eftpos works and what happens when customers press 'CHQ', 'SAV' or 'CR' at the checkout.

BY BRUCE MANSFIELD

Now 23 years' old, Australian-owned eftpos is our most popular debit payments system and a regular part of our daily life. Through eftpos' electronic network, businesses, customers and their respective banks are linked, facilitating over two billion debit transactions annually, worth a staggering \$120 billion. Any debit card can make eftpos purchases, including those run by MasterCard or Visa; you just need to press CHQ or SAV.

So, why choose eftpos over other payment methods? The simple answer is eftpos is better for business, being far cheaper than Mastercard or Visa. It's also better for consumers, allowing them safe and convenient electronic purchases using their own money.

By offering eftpos transactions and encouraging people to use it, you reduce your transaction

costs, helping you keep your prices down and customers happy.

HOW AUSTRALIANS PAY

Cash continues to account for a substantial amount of transactions, particularly low value purchases (under \$20) but there are also many credit and debit cards on offer. Most businesses are familiar with credit cards, though perhaps don't always focus on the high transactions costs associated with these cards.

Debit cards fall into two categories; eftpos-enabled debit cards and Visa and MasterCard debit cards (also known as scheme debit cards).

Eftpos-enabled debit cards are issued by banks and link to transaction accounts, meaning people only spend their own money. Used at ATMs and for point-of-sale purchases,

> ONLINE
<http://eftpospayments.wordpress.com>

transactions with these cards are routed through the low-cost eftpos payments system.

Scheme debit cards are issued by banks, together with credit card companies: MasterCard or Visa. They link to transaction accounts but can also be used for purchases when the cardholder isn't present (for

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example online, by phone and by mail). A curious aspect of these cards is that for them to be used as a Visa or MasterCard debit card, the cardholder must press CR; if the cardholder presses CHQ or SAV, the purchase becomes an eftpos transaction.

Scheme debit cards are useful products for businesses and consumers alike, if used wisely. However, people must understand businesses pay much higher fees when customers use MasterCard and Visa, rather than the cheaper eftpos network. This means you either face reduced profit margins or pass the higher fees to your customers – neither of which are great options.

CASH VERSUS EFTPOS

There's a popular misconception that eftpos only competes with cash on speed, security and ubiquity, and an underlying assumption that cash is free and, therefore, eftpos can't win when it comes to price.

This is wrong. Cash payments have a price; there just isn't much easily accessible information about it. With this recognition, cash's long standing dominance is currently under the microscope and businesses are paying more attention to its impact on the bottom line.

Assessing the use and cost of cash isn't easy but two things are largely accepted:

1. The use of cash (as measured by its distribution through ATMs) is declining, and
2. There's a cost in accepting cash, as there is with all payment types.

Once you begin to factor in the additional costs of cash, such as point-of-sale costs, back office processing, and other fees and transfer charges, it's clear eftpos is a worthy rival.

A study by the Reserve Bank compared the cost to merchants of accepting various payment products and found:

1. Eftpos is a relatively low-cost payment option
2. The majority of the costs of an eftpos transaction come from the time it takes to transact, and
3. Eftpos actually becomes cheaper than cash for merchants as the transaction value increases.

Under the new eftpos interchange fee model, set to come in from 1 October, transactions below \$15 will be fee-free (compared to a 5 cent fee for transactions above \$15).

When you consider the above changes, there will surely be strong incentive for many small businesses to replace cash with eftpos for low value purchases.

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THE COST OF CONTACTLESS PAYMENTS

While cash is under scrutiny, it can't be denied it still rules for low-value transactions, like newspapers and takeaway coffee. People tend to carry money for these purchases, while dreaming of no longer having to visit ATMs or carry pockets full of coins. Therein lies the opportunity to replace cash with more convenient payment systems. Visa and MasterCard have zeroed in on this area by introducing contactless solutions such as Visa's PayWave and MasterCard's PayPass. But do contactless cards really deliver anything more than an eftpos transaction already provides today? No.

While they have a speed advantage over cash, there's no tangible difference between contactless cards and an eftpos transaction. At best, you're saving a few seconds keying in a PIN, but contactless transactions still require issuer authorisation and many merchants still set up terminals to issue customer receipts.

What's more, they're not cheaper. Businesses face the relatively high scheme debit fee every time they accept a contactless Visa or MasterCard debit payment, and there's a costly outlay for terminal upgrades to accept contactless cards. And from a fraud perspective, while the technology is safe, in many transactions there is no requirement for a PIN or signature for transactions under \$100. So, if a card is lost, someone could perform multiple transactions for under \$100 until it is reported lost or stolen.


MAINTAINING COMPETITION

So, why is it so vital for Australian companies to understand the payments industry and select the best payments options for their business? It all comes down to safeguarding competition and the choice we currently have. Eftpos is a low-cost alternative to MasterCard and Visa, and businesses must educate themselves and take action to ensure they and their customers continue to get the best deal.

The Australian financial services industry is heavily regulated and while some question this intervention, there's no doubt it has contributed to Australia having one of the most robust systems in the world. We have already seen regulatory changes to the credit and debit cards industry which addressed issues limiting competition and efficiency. This will continue until we have a level playing field, on which competing payment schemes agree to compete in an environment which is transparent and inclusive, or at least interoperable.

It is critical that competition remains and for this to happen we need a vibrant local scheme, like eftpos, competing as a viable alternative to the larger, and significantly more expensive, foreign-owned schemes.

If eftpos fails, as BankCard did, is it wise for Australians



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to rely on Visa and Mastercard to provide fast, safe, efficient and reasonably priced payments, given their global commercial goals? Imagine an Australia without eftpos, with retailers having no option other a powerful global duopoly. **DB**

—Bruce Mansfield is Managing Director for eftpos Payments Australia Limited (ePAL).

TIPS FOR KEEPING PAYMENTS COSTS DOWN

1. **Interrogate your rate.** Ask your bank to give you separate pricing for eftpos, scheme debit and credit card transactions rather than a blended rate. Subsequently, your low-cost eftpos transactions won't be subsidising expensive scheme debit and credit card purchases. You'll then be able to manage your transaction mix effectively for minimal cost impact.
2. **Turn off the 'CR' button for debit.** Ask your bank if they can program the terminal to process MasterCard and Visa debit cards as eftpos only.
3. **Make smart choices.** When managing your financials, don't focus only on transaction fees. Also factor in other processing costs including back office, point-of-sale and other fees and transfer costs.
4. **Consider cash out.** Offering this service means your bank actually makes money, making it hard for them to justify fees to you. Cash out also reduces cash handling costs for your business.
5. **Accept low-value eftpos transactions.** From October 2011, eftpos will offer zero transaction fees between banks for purchases under \$15. Talk to your bank about what this will mean for its charges to you.
6. **Educate your staff.** Talk to them about transaction costs and ask them to champion eftpos use with your customers by encouraging them to press 'CHQ' or 'SAV'.