

Transport Division
Essential Services Commission
Level 37, 2 Lonsdale Street
Melbourne VIC 3000

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Via email: transport@esc.vic.gov.au

To whom it may concern

Thank you for the opportunity to respond to the Essential Services Commission's (ESC) *Taxi non-cash payment surcharge review 2019*. As a major participant in the domestic and global payments system, Mastercard is well-placed to provide insights into consumer behaviour and expectations, evolving payments technology and the costs involved in facilitating electronic payments.

In our submission, we have focused the growing consumer preference for paying by card and the declining use of cash for making everyday payments. Increasingly, consumers expect to be able to pay by card and dislike being surcharged for doing so. We note that ridesharing services only accept card payments and do not impose surcharges to recover the costs of acceptance, a business strategy impacting passenger preferences and the competitiveness of taxis. We have also raised the benefits taxi drivers and operators receive from accepting electronic payments, in particular, better driver safety from carrying less cash and a reduced risk of theft and assault.

We would be pleased to provide you with more detail about the costs and value of electronic payments in the taxi industry. If you would like to discuss this submission further, or require additional information, please contact Chris Siorokos, Director Public Policy on 02 9466 3720 or via email to chris.siorokos@mastercard.com

Yours sincerely



Richard Wormald
Division President, Australasia

Executive Summary

Mastercard is pleased to respond to the Essential Services Commission's (ESC) *Taxi non-cash payment surcharge review 2019*.

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

Mastercard's guiding principles in making this submission are to facilitate:

- An efficient and effective payments system;
- Recognition of the value electronic payments deliver to businesses and the wider economy;
- Protection of consumer benefits and mitigation of unnecessary cost impacts; and
- Development of evidence-based policy which considers the impact on all system participants of regulation imposed on payment systems.

Mastercard's goal is to ensure the best possible policy and regulatory settings are in place to continue to incentivise investment in innovation and the growth of electronic payments, and which deliver the best outcomes for Australians.

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 rates 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.

"Surcharging" in the Victorian taxi sector does not reflect the costs of accepting electronic payments

In Victoria, the permitted taxi surcharge can be levied by payment processing businesses, booking service providers and by drivers using their own payment terminals. It is intended to cover more than costs associated with accepting card payments. Because of this, Mastercard believes the amount the ESC allows to be levied on card payments for taxis should not be characterised as a surcharge. It is more accurately described as a fee for the

provision of services by taxi payment processing businesses. Describing it as a surcharge will only confuse taxi patrons, leading them to believe the entire amount levied is a surcharge on their card payment.

This consumer charge is very different to the typical surcharge merchants in other sectors are permitted to charge. Under the RBA's Standard, the allowable surcharge on card payments cannot exceed the reasonable costs of acceptance that card. These costs have been estimated by the Australian Competition and Consumer Commission (ACCC), the body charged with monitoring compliance with the standard:¹

TYPE OF TRANSACTION	SURCHARGE PERMITTED
Mastercard and Visa debit	0.5% of transaction value
Mastercard and Visa credit	1-1.5% of transaction value
American Express credit	2-3% of transaction value

Consumers want to pay by card and they don't want to be surcharged

In determining the appropriate surcharge for non-cash payments for taxis, it's critical the ESC acknowledge the evolving payments landscape and the trend of electronic payments displacing cash.

Australian consumers are particularly enthusiastic users of electronic payments. The latest Reserve Bank of Australia (RBA) Payments Survey data showed Australian consumers are making more payments by card than by cash, with credit and debit cards combined the most frequently used means of payment.²

The decline in the volume and value of cash transactions is due to a range of factors, all of which point to a transition to an economy where electronic payments are the norm. These factors include:

- The rapid uptake of online banking, bill payment and shopping.
- Consumers' preference for contactless payments, increasingly for small transactions, and widespread merchant acceptance of cards for low value purchases.
- High smartphone penetration in Australia which is driving growth in innovative contactless payments apps.
- The low cost of making and accepting electronic transactions

National payments data shows an ongoing decline in the use of cash as technology emerges to reshape how, when and where we can make payments. According to the RBA:

- The median value of cash held in consumers' wallets has fallen to \$40, down from \$55 in 2013.³
- A relevant proxy for cash use is cash withdrawals from ATMs, which are also on the decline – from a high of 78 million in December 2008 to 49 million in April 2017.⁴

¹ See Australian Competition and Consumer Commission, Payment surcharges at <https://www.accc.gov.au/business/pricing-surcharging/payment-surcharges/ga-payment-surcharges>

² Doyle, MA et al 'How Australians Pay: New Survey Evidence', *RBA Bulletin* March 2017

³ Reserve Bank of Australia, 'How Australians Pay: New Survey Evidence,' Bulletin, Mary-Alice Doyle, Chay Fisher, Ed Tellez, March Quarter 2017

⁴ Reserve Bank of Australia, Monthly Payments Data at <http://www.rba.gov.au/payments-and-infrastructure/resources/statistics/>

- The median value of card payments at point of sale also continues to decline, from \$40 in 2007 to \$28 today,⁵ reflecting consumer expectations of paying by card for even small transactions.

A recent study by Square confirms these trends, finding 81% of consumers prefer electronic payments. One in three Australian consumers carry no cash at all and make all of their payments by card.⁶ Consumers also dislike surcharging on card payments. Research by Finder.com.au has found 94% of consumers think card surcharges are unfair.⁷

Technology is changing the way we book and pay for taxis

The advent of ride sharing services like Uber has demonstrated that making bookings, paying and accepting payment for transport services can be made much easier and smoother for both drivers and passengers.

Taxi networks in Victoria have responded to the competition introduced by ridesharing by developing their own apps to facilitate bookings and increase patrons' sense of safety (see for example, the apps offered by local taxi networks 13Cabs and Silver Top Taxis). At this stage, these apps do not facilitate payment.

Ridesharing technology clearly shows the additional services provided by taxi payment processing services can be programmed into an app. Mastercard believes enabling payments via app is the next logical step for the taxi industry as it evolves to respond to competition and higher customer expectations. There is the very real possibility that current business models for payments processing for taxis will be rendered obsolete by competition and technology in the not too distant future.

The value of electronic payments in the taxi industry

Mastercard does not encourage merchants in any industry to surcharge their customers for paying by card, because accepting cards delivers significant benefits to them. We also note surcharging is clearly unpopular with consumers and, in the case of taxis, may discourage patronage and help drive custom towards alternative transport services that do not impose a surcharge.

In the case of taxis, accepting electronic payments:

- Increases the pool of purchasers of taxi services to include those who are not carrying sufficient cash or prefer to pay by card. Mastercard notes competition from ridesharing services may also be having an impact on customer expectations around payment. Many customers already perceive ridesharing to be better value than taxis⁸ and these services do not typically impose a surcharge on card payments.
- Simplifies accounting, administration and cash handling costs borne by drivers and operators. A recent study shows that the average Australian small-to-medium business spends around and 216 hours - around 29 working days - each year counting and banking cash.⁹

⁵ Reserve Bank of Australia, 'How Australians Pay: New Survey Evidence,' Bulletin, Mary-Alice Doyle, Chay Fisher, Ed Tellez, March Quarter 2017

⁶ Square, '94% Research Shows 94% of Australian Consumers are Against Card Surcharges,' September 2018, at <https://squareup.com/au/townsquare/surcharging-fee-free-stores> (retrieved 2 January 2019)

⁷ Finder.com.au, 'Fee free shops' 2018 at <https://www.finder.com.au/fee-free-shops> (retrieved 2 January 2019)

⁸ See, for example, CHOICE, 'UberX vs taxis, which one is best', August 2017 at <https://www.choice.com.au/transport/cars/general/articles/uberx-vs-taxi-which-one-is-best> (retrieved 2 January 2019)

⁹ Square, 'Cash costs businesses big time,' September 2018, at <https://squareup.com/au/en/press/cash-costs-businesses-big-time> (retrieved 2 January 2019)

- Reduces insurance and security costs by limiting potential theft and loss;
- Keeps drivers safer by reducing the risk of theft and assault because they carry less or no cash in their vehicles.¹⁰

It is important from both an industry and policy perspective to understand the full value delivered by electronic payments. In particular, it is important to acknowledge how any disincentive for patrons to pay by card impacts driver safety and could continue to erode taxis' competitive position in an increasingly competitive market.

Additionally, electronic payments increase transparency across the economy. Unlike cash, electronic payments are always recorded and information about those payments can be obtained by relevant government agencies as appropriate. Electronic payment taxi receipts also allow customers to identify a taxi and a specific trip should they need to recover lost items or report an incident etc.

Conclusion

In determining the appropriate surcharge for non-cash payments, the ESC should acknowledge the growing consumer preference for paying electronically. Victorians, like all Australians, are simply carrying less cash and expect to be able to pay by card without penalty. In response, merchants across other industries are choosing to accept electronic payments even for small value purchases and are not imposing surcharges.

Surcharging is a critical issue for the taxi industry, as ridesharing services are perceived by consumers to be cheaper and typically do not apply a fee to facilitate card payments. Encouraging non-cash payments would also deliver the very significant benefit of promoting driver safety and reducing the administrative burden that cash payments create for taxi drivers and operators.

At the very least, if surcharging is to continue, the maximum permissible surcharge should be based on the allowable costs identified by the RBA and reflected in the estimates calculated by the ACCC.

We look forward to working with the ESC on an outcome that promotes competition, efficiency and ensures consumers do not pay more than they need to when choosing to pay for a taxi by card.

¹⁰ See, for example, the advice of the Toronto Police Force to taxi drivers on safety – accept card payments and try to minimise cash transactions at <http://www.torontopolice.on.ca/crimeprevention/taxisafety.php> (retrieved 10 January 2018).