




ESC Draft Decision Response

July 2019

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Introduction

It is pleasing to see the amount of time and effort which the ESC has undertaken in creating the draft decision document for the *Taxi Non-Cash Payment Surcharge review 2019 (ESC Draft Decision)*. There are several items in the draft decision which Live group believes requires further review.

Just 5 years ago, the maximum non-cash payment surcharge was reduced by 54%, to a maximum surcharge of 5.00% (inclusive of GST). This drastic change forced true taxi specific payment providers to adapt their business model, while also continuing to offer a high level of service to both the passenger and the taxi driver.

In saying so, Live group confirms its position, in our view, the maximum non-cash taxi payments surcharge does not need to be increased nor reduced, but rather, maintained at the current maximum of 5.00% (inclusive of GST).

Barriers to competition not reduced

The final report labelled "*Taxi Industry Inquiry*" of September 2012 (TII), identified two key barriers to competition, which were; the inability for taxi specific payments processors, other than A2B (formerly Cabcharge), to process MPTP government subsidy transactions, as well as, process closed loop Cabcharge charge cards.

The inability for a taxi specific payments provider to process Cabcharge cards reduces potential transaction turnover, per payment terminal [REDACTED]. This leads to an inconvenience for the taxi driver, as the ESC has correctly identified, needing to utilise two payment terminals, and forces mobile payment terminal providers to offer other incentives in order to compete in a market, which is yet to become a level playing field.

The TII report stated:

"A new standard should be established for the processing of Multi Purpose Taxi Program cards and this should be made available to future card payment providers. This would involve allowing any EFTPOS terminal to process Multi Purpose Taxi Program cards by permitting taxi fare data to be acquired by EFTPOS terminals via newer 'cloud' technologies, rather than only via the current requirement of a hard-wired link with the taximeter."

The ESC Draft Decision has correctly identified, that in addition to A2B, there is one Booking Service Provider, Oiii, processing MPTP transactions on its dispatch system. It is important to note that Oiii's MPTP integration is performed via its dispatch system and not a standalone payments system. Concluding, other than A2B, there are still currently no taxi specific payments providers who have the ability to process MPTP transactions.

The Victorian government are yet to establish technical mechanisms, as identified above, "*allowing any EFTPOS terminal to process Multi Purpose Taxi Program cards by permitting taxi fare data to be acquired by EFTPOS terminals via newer 'cloud' technologies*". This significantly decreases the competitive advantage of most taxi specific payments providers, in two ways;

- A2B terminals are effectively mandatory in all taxis, as MPTP acceptance is a government mandate, equating to turnover per handheld terminal being significantly reduced, and;
- Competitors are unable to offer a true 'all in one' solution to taxi drivers, networks or operators. [REDACTED]

The TII further stated;

"The inquiry notes that serious concerns remain about the effectiveness of competition due to 'upstream' market power held by Cabcharge. Cabcharge's strong position in the taxi-specific payment instruments market (or as part of a broader payment instruments market) and its ongoing refusal to allow competitors to process Cabcharge cards reduces the size of the market for Cabcharge's competitors in payments processing. Together with MPTP processing requirements, this provides a compelling reason to always have a Cabcharge terminal installed in a Victorian taxi. This problem is accentuated by the economies of scale that are available in payments processing; that is, many of the processing costs are fixed with respect to the number of transactions, meaning that average costs per transaction are likely to be higher for processors that cannot process all cards."

[REDACTED]

With a level playing field yet to be established, forcing the average turnover per mobile taxi terminal to be significantly reduced (as both Cabcharge and MPTP cards are evidently difficult to accept) this naturally forces competitors to continue offering commission, or other value added services, to ensure that there is continued usage of their payment services.

In our view, prior to any reduction occurring to the maximum non-cash taxi payment surcharge, which may significantly impact the financial viability of taxi specific payment providers, the ESC needs to ensure that there is a level playing field, at minimum, providing easy access to fare data to all payment processors, and thus removing a significant barrier from both MPTP and Cabcharge card processing capability.

Reasonable cost of processing non-cash taxi payments

Juxtaposed to a traditional Small to Medium Enterprise (SME), the attrition rate of a taxi specific payment terminal is significantly higher than an SME payment terminal. The average attrition rate of a Live taxi terminal is 8 months. Whereas, the attrition rate of a payment terminal deployed in the SME segment is significantly lower, at 27 months. This equates to increase on-boarding, refurbishment and distributions costs for taxi payment terminals.

Additionally, and importantly, SMEs pay a monthly rental fee for EFTPOS terminals, on average of \$33 per month (inclusive of GST), whereas taxi specific terminal customers do not.

Average Turnover Per Terminal

The ESC Draft Decision has determined that a taxi specific terminal processes an average of \$2,138 (\$4,276 / 2) per month. [REDACTED]

[REDACTED] A2B's 1HFY19 report stated that, it deployed approximately 7,500 handheld taxi terminals, which processed \$67m. This results in an average of \$1,488 per handheld terminal, per month, broadly in line with Live taxi's average. Effectively, the actual turnover per handheld terminal, per month, is 20-30% below what the ESC Draft Decision has stated.

On-boarding Costs

Taxi drivers do not pay upfront or rental fees for a payment terminal. As identified by the ESC Draft Decision, a payment terminal is generally depreciated over a 36-month period. As noted above, the attrition rate for a taxi terminal customer is 8 months, which over a 36-month period equates to 4.5, juxtaposed to just 1.3 customers for a SME payment terminal customer.

Overview of Costs

Variables

Terminal:	[REDACTED]
On-boarding:	[REDACTED]
Turnover:	[REDACTED]
SIM:	[REDACTED]
MSF:	[REDACTED]
Service Fee:	4.54% (Current maximum)
Total Income:	[REDACTED]
MSF Cost:	[REDACTED]
Fixed Costs:	[REDACTED]
On-boarding:	[REDACTED]
Net Income:	[REDACTED] per month (Total Income – MSF Cost – Fixed Costs – On-boarding)

All calculations as GST *exclusive*.

The above demonstrates that a handheld taxi specific payment terminal provides an average net income of just, [REDACTED] per month, equating to 1.21%, out of the current maximum 4.54% service fee. This equates to a Net/Gross Income margin of 26.65%, arguably reasonable and not excessive.

Driver and operator rebate

Live taxi provides a driver and operator rebate, of up to 1% (inclusive of GST), for high value, long term taxi payment terminals. 77% of Live taxi's customer base does not earn any commission.

The ESC Draft Decision notes that commission of up to 2.25% (inclusive of GST) is offered by some competitors. The only competitor, which we are aware of, offering [REDACTED] commission is Ingogo. Ingogo are funded by private equity, and operate as a Booking Service Provider, where expenses can be cross-subsidised, [REDACTED]

[REDACTED]
[REDACTED]
[REDACTED]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

[Redacted]

Savings to passenger

The ESC Draft Decision has correctly noted that a reduction of the maximum service fee to 4.50% (inclusive of GST), would save passengers approximately \$3m per annum. The reduction in 2014 already passed on significant savings, completely funded by the private sector, of approximately \$33m per annum.

Post the service fee reductions, a \$1.10 government levy was established, charged to the passenger, per transaction. This levy is estimated to cost passengers no less than \$20m per annum.

mPOS payment terminals

These devices leverage data costs of a mobile phone, have no printer, and are generally not compliant to service-disabled passengers, such as passengers who may be vision impaired.

Live eftpos

Live eftpos is a division of Live group, providing payment services to SMEs. The ESC Draft Decision states;

"Of particular note is that a small business with monthly revenues similar to the typical taxi could process non-cash payments using a Live eftpos terminal at a cost of 2.4 per cent of their revenues.



Live eftpos also provides a taxi non-cash payments service using exactly the same terminals.”

It's important to note, that Live eftpos merchants pay a monthly terminal rental, are at times subject to an early exit fee, and attract a substantially reduced attrition rate, as previously described, juxtaposed to taxi drivers.

The average turnover per SME terminal is also substantially higher than what has been stated in the ESC Draft Decision, [REDACTED]. The average monthly rental charged to a Live eftpos merchant is \$33 (inclusive of GST), which is the equivalent of collecting an additional 2% in taxi service fee income, [REDACTED].

The rental fee, reduced attrition rate, and higher turnover per terminal, are all contributing factors as to why Live eftpos are able to charge a 2.40% processing fee to SME customers, juxtaposed to a 5.00% service fee on taxi transactions.

'Cashing booths'

The ESC Draft Decision has completely removed the cost of these 'cashing booths', and, in our view, incorrectly referred to them as cashing booths. A2B (Spotto), GM Cabs and Ingogo all list national offices on their website. Ingogo does not provide cash out services to taxi drivers.

Live taxi refers to its centres as 'lounges'. Whilst Live taxi does offer cash out facilities to drivers, in some locations, for no additional fees, these lounges are also used as service centres for drivers. Taxi terminals are subject to volatile conditions, juxtaposed to the average SME terminal, and require a significantly higher rate of repairs, swap out and maintenance. These centres are also utilised for driver queries, such as charge backs, transaction and payment queries.

A large portion of taxi drivers are immigrants, who may not speak fluent English, nor have the capability to complete digital sign up forms. It is important to note, 62% of Live taxi new customer sign ups occur at a Live taxi lounge. Live taxi lounges are not located at any airports, and most Live taxi customers are paid via bank transfer. Taxi drivers tend to require and prefer face to face customer service. By excluding this important cost base, in our view, the ESC Draft Decision is overlooking an important customer service investment that key taxi specific payment processors have made.

In our view, the cost of operating these centres, or at a minimum at least 75% of the cost base, is a genuine cost of providing non-cash payment services to taxis.

Taxi non-cash payment surcharging in other jurisdictions

The ESC Draft Decision mentions several cities in the USA, (such as New York and San Francisco) where no service fee is charged. It's important to note that payment systems in those states operate significantly differently to Australia, whereby the driver pays a transaction fee, however, the payment system also collects an automated tip of 15-20% of the fare, which is provided directly to the driver. Effectively and indirectly, the driver does not pay the service fee.

US cities, such as Chicago and Las Vegas, continue to charge a 5% and 10% service fee respectively,

and collect additional tips as well.¹

In 2017, the Supreme Court of New York ruled that barring stores from promoting a credit card surcharge violates their freedom of speech. Effectively, the Supreme Court ruled that surcharging is a constitutional right per individual business.²

Alternate payments such as Afterpay and Zip

Our view is that alternate payments, such as; Afterpay and Zip, should be considered as a reasonable benchmark for standalone non-cash payment processing services.

The ESC Draft Decision states:

“Afterpay is more than a payment processor. In addition to processing payments, Afterpay allows the consumer to receive goods now and pay for them later. Afterpay charges merchants for this service, so its merchant fees are higher than other payment processors. This means Afterpay is not a reasonable benchmark for standalone non-cash payment processing services.”

Both Afterpay and Zip charges merchant fees of up to 6% (inclusive of GST). Effectively, both services are no different to a credit or charge card. The function of credit and charge cards is to allow a consumer to buy goods and services now and pay for them later. Afterpay and Zip simply target a market segment which has low credit and charge card adoption, i.e. millennials.

Visa and Mastercard submissions

The ESC Draft Decision noted that Visa made a submission which stated that the service fee should be removed or reduced, and that Mastercard submitted that the surcharge should be limited to the allowable costs identified by the Reserve Bank of Australia (RBA).

Firstly, the submissions by Visa and Mastercard, are inconsistent with their support for alternate payment providers, such as Afterpay and Zip. [REDACTED], and generally collect repayments by a Visa or Mastercard debit card.

Secondly, Mastercard does not acknowledge that taxi payment providers provide a service. The allowable costs identified by the RBA are for businesses generally generating their income via another trade or service. The trade and service of the taxi payment providers is to provide a payment service; hence a service fee is charged.

[REDACTED]

The big four banks

The ESC Draft Decision states that *“The major banks effectively already serve the taxi payments*

¹ www.aol.com/2010/08/12/new-york-taxi-nudge-customers-toward-30-tips (Accessed 18/06/19)

² nypost.com/2017/03/29/law-barring-promotion-of-surcharges-violates-rights-court (Accessed 18/06/19)

industry". In our view, this statement significantly underestimates the role that the payment service provider plays. The bank simply provides a link into the card schemes, i.e. acts as an acquirer. We agree with A2B's statement "A2B Australia also noted that the taxi industry is highly fragmented and the costs of servicing a large number of relatively small businesses are relatively high", as described earlier, not only is the taxi industry highly fragmented, there is a significantly high attrition rate, well above the general SME, which generally makes the segment unattractive for the banks.

Additionally, prior to 2014, when no maximum non-cash payment surcharge was legislated, and the general surcharge was 10% (exclusive of GST), none of the major banks chose to service the taxi industry directly.

Conclusion

In our view, with respect, the ESC Draft Decision has overstated the turnover per taxi terminal, excluded an essential component, 'cashing booths', taken a too simplistic approach when comparing the provision of payment services to SMEs and taxi, and, most importantly, are yet to truly establish a mechanism to provide a level playing field, a key aspect which was identified in the TII report. For these reasons, in our view, the maximum non-cash taxi surcharge should remain at 5.00% inclusive of GST.

