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A2B Australia's Submission to Essential Services Commission Unbooked Taxi fares and Non-Cash Payment Surcharge (NCPS) Review 2024 Consultation Paper

Introduction

A2B Australia appreciates the opportunity to provide a submission in respect of the Essential Services Commission's (the Commission) Taxi Reviews 2024 Consultation Paper.

A2B notes the Commission is seeking submissions in relation to both the setting of the maximum unbooked taxi fares and non-cash payment surcharge (NCPS). This submission will address each issue in this document.

At the outset, A2B would like to respond to the Commission's request on page 7 of the Consultation Paper which asks respondents to comment on 'changes to the market for unbooked taxi services since its last review'.

The market in which taxi services like A2B's taxi brand 13cabs and payment provider Cabcharge operate in has changed fundamentally and profoundly since the emergence of rideshare services in 2015.

A2B has made this point in previous submissions to the Commission and continues to urge Government and government agencies like the ESC, to recognise the implications of these changes for the way in which Commercial Passenger Vehicle (CPV) services are regulated in Victoria.

The requirement for the ESC to review the NCPS is now unequitable and regulatory attention should turn to the practices of rideshare companies, which now hold well over 50% share of the market. There is little to no transparency on how much these entities charge customers to process non-cash transitions, or how rideshare companies justify taking a such a large percentage of the Driver's earnings. At present, 13cabs charge the Driver approximately 8% of the fare per trip through the monthly subscription business model and the passenger pays a further 4% if they use an electric form of payment. Rideshare charge up to 30% of the fare for the bookings they offer. The 13cabs percentage pays for a raft of additional services including alarm monitoring and safety measures to protect Drivers, who also pay significantly higher insurance premiums and provide an invaluable service to the less able members of the community. Rideshare offers none of these auxiliary services but charges 20% more.

The cap on the amount a payment processing entity like Cabcharge can charge for the NCPS was the result of the Victorian Government accepting a recommendation from a 2012 review into the operation of the Victorian taxi industry titled *Customers First - Service, Safety*, Choice. Recommendation 13.3 from the final review stated that,

> "The 10 per cent service fee levied on the processing of electronic payments should be brought under regulation and set at a level that better reflects the resource costs of providing the service. The inquiry recommends this fee be set at five per cent of the transaction value as a maximum amount that can be charged, subject to a further evaluation by the Essential Services Commission."[1]

[1] Final Report, Customers First – Service, Safety, Choice, Victorian Government, p31.

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Since the introduction of this recommendation an important additional recommendation has continued to be ignored. Recommendation 13.5 states,

> "Removal of the service fee regulation applying to the processing of electronic payments for taxi fares should occur when competition is more effective in this area."[2]

When the report was published in 2012, rideshare was yet to enter the Australian market. It appears inconsistent that since their entry into the Victorian market rideshare have avoided the same regulatory scrutiny that taxi service payment providers have. Given that rideshare services now constitute such a significant portion the CPV industry, it is the view of A2B that a review of the existing legislation and regulation should be conducted to ensure equity in how regulation is applied across the entire industry. Further, A2B believe consideration should be given to increasing the transparency of how rideshare providers charge customers for their services. There is no reason rideshare customers should not be afforded the same regulatory protections as taxi customers.

A2B respects the role of the Commission and understands that it must act in accordance with rules set out in various statutes. However, we would also expect that the Commission would advise Government of changes in the market that render regulatory focus unequitable and support A2B in calling for a review of the existing regulation. review.

Taxi Fare Review

A2B considers that the cost components outlined in the Commission's discussion paper accurately reflects the key contributing factors to the costs associated with operating a taxi in Victoria.

A2B also supports the weight the Commission has prescribed to each component and believe that the Commission's view is consistent with the weight that each of the cost components represent in the total cost of operating a taxi.

We support the Commission's approach to update each of the cost inflators in the taxi cost index. We would expect that any resulting increase would be passed through to the taxi fare box. While we appreciate the Commission's concern for the impact that increases in price may have on demand for our taxi services, we would also point out that the outcome of the Commission's work is a 'maximum fare' - meaning that service providers like 13cabs can adjust their price below the maximum if they feel increases are affecting demand for their services.

Given the current macro-economic environment and inflationary pressures generally, A2B would expect that the review would justify an increase to the maximum fare.

Non-Cash Payment Surcharge

A2B would like to draw attention to several issues that would support a raising of the NCPS to previous levels of 5 per cent (including GST) and a misalignment of the current NCPS approach to the aim of the Commission and ask the Commission to consider this in their determination.

1. Inflationary cost pressures impacting on payment processors through increased costs of doing business.
2. Further cost impacts driven by the shutdown of the 3G telecommunications network resulting in $3.5m incremental capex in FY24 and a further $15m in opex over the next 5 years.
3. Reduction in the demand for in-taxi payment transactions.
4. Integrated vs stand-alone payment terminals are not equal and need to be considered differently.

[2] Final Report, Customers First – Service, Safety, Choice, Victorian Government, p31.

We explore each of these issues in more detail below.

1. Inflationary cost pressures impacting on all payment processors.

The latest Reserve Bank data shows Australia's Consumer Price Inflation rose above the target range of 2-3% in June 2021, and has remained above that range ever since, reaching 7.8% in December 2022. At the time of writing, Reserve Bank forecasts show inflation will remain above 4% in 2023 and will not get back below 3% until December 2025.

These inflationary cost pressures have a multi-layered impact on payment processors:

- Rise in internal software development and servicing costs through increased salaries.
- Rise in hardware supply costs from supply chain price increases.
- Reduction in revenue due to household spending contracting consumer spending.

These factors come at a time when the last review reduced the non-cash payment surcharge by 20%, which compounds the impact on all payment processors and needs to be taken into consideration by the Commission.

2. Further cost impacts driven by the shutdown of the 3G telecommunications network.

In 2024, the 3G telecommunications networks of all major providers in Australia will cease operating. Up until recently, the taxi industry in Australia and the major payment processors relied on the 3G network to support in taxi payment processing.

To ensure continuity of service to our customers and to the industry, A2B and other payment processors have been required to undertake major software and hardware upgrades across the entire terminal fleets, including in Victoria.

To supply and fit new payment terminals to all taxis will cost A2B an incremental $3.5 million in capital expenses in FY24. Furthermore, supplying brand new payment equipment to the market will attract an additional $15 million in operational expenses over the next 5 years. These costs are incremental to the current cost base of operating an in-taxi payment processing service for the taxi industry.

3. Reduction in the demand for in-taxi payment transactions.

To supply in-taxi payment processing services for the industry, payment processors are met with a combination of fixed costs and variable costs. The current NCPS represents a variable revenue stream for payment processors.

Therefore, payment processors rely on demand for in-taxi payment transactions being processed through their payment terminals to offset both the fixed and variable costs of providing that service. As demand falls, the price of this service needs to increase to continue making it sustainable for payment processors to continue providing the service.

Since October 2019, demand for in-taxi payment transactions on a per terminal basis has been impacted by several factors:

- Growing popularity of Card Not Present (CNP) payments by consumers where they pay for trips in digital channels such as mobile app and website (meaning there is no transaction processed on the payment terminal in the car).
- Cost of living pressures reducing household spending for on-demand transport services.
- Increase in the number of taxis on the road in all states including Victoria (which requires more payment terminals for the same number of transactions).
- Increase in the number of payment terminals per car.

The combined impact of these factors is a reduction in in-car credit and debit card transactions of 26% from October 2019 compared to October 2023.

Given the fixed and variable costs that go into supplying, installing and servicing a payment terminal for every vehicle, this change in demand makes it exceedingly difficult to continue to sustainably supply terminals across the industry.

A2B provides payment terminals and in-vehicle taxi technology across the entire industry including regional and remote areas of all states including Victoria. A2B also provides essential payment services for the community and the taxi industry such as Cabcharge and MPTP card processing. As such, any changes in the demand for in-taxi payment transactions per terminal has an amplified impact on A2B given the size of A2B's existing payment terminal fleet and therefore the costs in supplying and servicing these payment terminals.

4. **Integrated vs stand-alone payment terminals are not equal and need to be considered differently.**

The Consultation Paper outlines the Commission's aim "…is to protect customers from paying too much, while ensuring taxis remain as a viable and accessible option for those who need it."

A2B's stated company vision is fully aligned with this aim, "To be the leading provider of personalised transportation services and solutions, committed to the success of our customers, our people and our stakeholders."

It is important for A2B that we constantly balance the needs of all our customers and stakeholders including Taxi Networks, Operators, Drivers, Passengers, and Corporate Customers. In doing so, we foster better outcomes for the entire taxi industry. This is something we are proud of and dedicated to.

In recent times, there has been much publicity about Victorian regulations relating to usage of taximeters for rank and hail (unbooked services). In response to this issue, the Victorian Government Department of Transport and Planning has amended the regulations and made it mandatory for drivers to "…ensure that a fare calculation device is operational and used during the provision of the unbooked commercial passenger vehicle service."

A2B is in full support of this change in regulation and believes it is aligned to the aim of the Commission and will provide better outcomes for the entire taxi industry.

It is in the enforcement of the change in regulation where there is a linkage with the Consultation Paper issues posed by the Commission.

Currently within the taxi industry, there are providers of payment terminals that integrate with the in-taxi driver application which is used for receiving and managing jobs and the fare calculation device (or taxi meter). In this integrated configuration, there is a direct linkage between the taxi meter and the payment terminal which ensures a payment cannot be made to a driver, unless the taxi meter has been used. It also ensures the amount the passenger is charged comes directly from the taxi meter and not manually adjusted by the driver.

This configuration is completely aligned with the Government's change in regulation and the Commission's aim as stated above. This configuration is also a strong way to support the enforcement of the change in regulation.

On the flip side, there are also providers of payment terminals in the industry that are used in stand-alone mode. This mode of usage means there is no linkage to any other technology in the vehicle.

The driver can process a transaction at any time and there is no guarantee that the payment is linked to a taxi trip or the use of a taxi meter.

Whilst A2B believes most drivers would not exploit this configuration at the detriment of passengers, we have seen that there is a minority that will. It is therefore indisputable that an integrated configuration is better aligned to the aim of the Commission and the recent changes in regulation made by the Government.

Providing an integrated configuration to the taxi industry comes at a significantly higher cost for those payment processors who choose to do so. Those providers who choose to provide this configuration are doing so because they are balancing the needs of all stakeholders within the industry and to provide and overall better taxi industry, despite the higher operating costs.

Currently, payment processors who invest in the industry by providing an integrated configuration at a higher operating cost, are restricted to charge the same fee as payment providers who provide a stand-alone configuration. The stand-alone configuration has a lower operating cost and provides a far inferior outcome for passengers. This represents an unfair playing field for payment processors and results in worse outcomes for passengers of taxis.

We ask the Commission to address this unfair playing field in their review of non-cash payment surcharges for taxi services.

In Conclusion

A2B believes there is a case for both an increase in maximum fares and an increase in the non-cash payment surcharge to ensure the provision of non-cash payment processing remains a viable and accessible option across the industry.

A2B are also of the view that due to significant changes to the nature and composition of the CPV market over the last 7 years, Government should review the current regulatory settings that relate to the regulation of the NCPS. While we recognise this is not within the remit of the Commission, we would encourage the ESC to consider including an action like this in its recommendations for this review.

Rising costs for payment processors due to macro-economic factors, technology changes within the industry and reduced demand for in-taxi payment transactions on a per terminal basis are putting pressure on payment processors who make payment processing accessible to the industry.

Finally, A2B would like to thank the Commission for the opportunity to provide a submission in respect of the Taxi Reviews 2024 Consultation Paper and to reaffirm our commitment to the supporting the aim of the Commission.

Yours sincerely,

[redacted]

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