Understanding credit and debit cards acceptance in Australia

Why do I need know about how credit and debit cards work?

Australian consumers pay using a credit or debit card more than any other consumers in the world. 89% of all travel purchased is done so using a form of payment other than cash / cheque.

In September 2017, The Government changed the way credit and debit card transactions are processed in Australia. There were two main changes:

1. The introduction of a cap on interchange fees. Interchange fees are paid by Visa and MasterCard to the bank that provides your business a merchant facility.
2. Refined the criteria for what a business can surcharge a consumer when they choose to pay by credit card.

How do I determine what my business payment surcharge?

All businesses are allowed to surcharge for five specific external costs these being:

1) **Bank fees** – eg: *The fee that the bank charges to accept payments by credit and debit cards.*
2) **Terminal rental and servicing** – eg: *The fee the bank charges to rent the merchant facility (both physical and online) and to maintain this service.*
3) **Gateway fees** – eg: *Fees for international services, switching (system that transfers money) and cross border transactions.*
4) **Fraud prevention**– eg: *The costs associated with managing the risk and occurrences of fraud.*
5) **Insurance for Forward Delivery Risk (supplier failure chargeback)** – *businesses can include the cost of utilising an insurance product such as the AFTA Chargeback Scheme (ACS).*

Calculating your 'cost of acceptance'

Bank fees (from merchant statement) + Additional permissible costs (payable to a third party): Gateway fees, Terminal fees, Fraud prevention, Insurance = Cost of acceptance

Fees 1 - 3 are most likely be included in the Cost of Acceptance (CoA) Statement from your bank or merchant service provider which must are provided to your business in June of each year.

For the fees detailed in 4 and 5, you will need to seek an insurance product that is independent of your bank, such as ACS (www.afta.com.au/acs).

Can I still blend an average surcharge across MasterCard and Visa?

Businesses are no longer allowed to blend their surcharge across card schemes (MasterCard and Visa) to establish an **average** surcharge for all credit cards as detailed in Example 1. If you choose to only have one surcharge rate across MasterCard, Visa and American Express, the business **will need to apply the lowest surcharge rate for all card Schemes** as in Example 2.

If you wish to apply only one surcharge rate you will need to apply 1.2% to all credit card payments as it is the lowest of all your allowable surcharge rates and the following examples have been developed for your information.

Example 1 – Blended rate for all credit cards	
Not Allowed – Average on all cards	
MasterCard credit	1.2%
Visa credit	1.4%
American Express	2.0%
Surcharge rate	**1.5%**

Example 2 – One surcharge rate for all credit cards	
Allowed – Lowest surcharge rate	
MasterCard credit	1.2%
Visa credit	1.4%
American Express	2.0%
Surcharge rate	**1.2%**

You may also choose to have an individual rate for each card scheme as detailed in Example 3.

Example 3 – Actual rate for all credit cards		
Allowed – Recover the costs of each card type		
	Cost to travel agent	*Surcharge*
MasterCard credit	1.2%	1.2%
Visa credit	1.4%	1.4%
American Express	2.0%	2.0%

Another possible surcharge structure would be to charge the lowest cost for MasterCard and Visa but create an average of the three cards for American Express. This would be permissible as long as the American Express surcharge rate does not exceed the cost to the agent. This is detailed in Example 4 and 5.

Example 4 – One surcharge rate for MasterCard and Visa and one for American Express		
*Allowed – Lowest rate for MasterCard and Visa Average for American Express (American Express surcharge is **LOWER** than the cost to the travel agent)*		
	Cost to travel agent	*Surcharge*
MasterCard credit	1.2%	1.2%
Visa credit	1.4%	1.2%
American Express	2.0%	1.5%

Example 5 – One surcharge rate for MasterCard and Visa and one for American Express		
*Not Allowed – Lowest rate for MasterCard and Visa Average for American Express (American Express surcharge is **HIGHER** than the cost to the travel agent)*		
	Cost to travel agent	*Surcharge*
MasterCard credit	1.8%	1.8%
Visa credit	1.9%	1.8%
American Express	1.7%	1.8%

What does the AFTA Chargeback Scheme (ACS) do?

ACS is a member focused non-profit organisation, established by AFTA. ACS is a mutual scheme providing risk protection products and services to support its ATAS accredited travel agents.

ACS seeks to mitigate the Forward Delivery Risk (FDR) which is one of the most significant exposures for travel agents when a consumer pays using credit and debit card. This risk has led to significant additional costs for travel agents in the form of bonds and guarantees by acquirers to obtain merchant facilities. ACS has been designed to be an effective risk mitigation strategy against FDR and ATAS travel agents should visit www.afta.com.au/acs to find out more.

What does a 'cap' on interchange fees mean for my business?

Interchange fees are the fees paid by the bank that provides your business a merchant facility to the institution that issues the credit or debit card. When the bank provides your business with a merchant facility it charges you a merchant rate and included within that is the interchange fee which is typically the majority of that rate.

Pre 2017, MasterCard and Visa had to ensure the average interchange fee was 0.5% with no cap across multiple years. This typically meant high turnover business benefited from lower interchange fees while small turnover businesses would have a higher fee.

Interchange fees are now capped at 0.8% with the average remaining at 0.5% assessed quarterly. This cap has resulted in the merchant rate for your business to accept a credit card reducing.

What is an Acquirer, Payment Facilitator and Payment Gateway?

There are multiple ways in which a business can decide to accept a customer's payment by credit or debit cards. An Acquirer is a bank or financial institution that provides a business with a merchant facility to accept electronic payments. For most businesses this is the bank you have a business account with.

However, many businesses choose to use a payment facilitator or payment gateway separately to the bank they have a business account with. This can happen because of better rates or improving the ways your clients can pay you.

Payment facilitators are independent businesses that act as an intermediary between an acquirer and a business. Payment facilitators can allow small businesses access to better rates as the payment facilitators combine their total turnover to negotiate a better rate for their customers.

If I want more information what should I do?

AFTA will continue to provide updated information via www.afta.com.au on this issue. The ACCC has also provided easy to understand factsheets and help guides for small business.

If you're client has additional questions AFTA has published a client facing factsheet for your client as has the RBA.

If you are concerned about the changes your primary contact should be with the acquirer or payment facilitator who provides your business with a merchant facility. In most instances this will be your bank.