

The Cards Surcharging Train

The direction of surcharging

Since the payment System board imposed the no-surcharge Standards from 1st January 2003 on all MasterCard and Visa credit card the market has seen many benefits as well as drawbacks.

The removal of these rules has allowed merchants to pass on the costs of transactions to customers via surcharging and improve price signals to cardholders about the relative cost of different payment methods.

However there was concern about surcharging being exploited by firms with market power but was not sufficient enough to encourage the schemes to look at imposing restrictions.

Merchant Embracing of Surcharging

Surcharging is now an increasingly dominant trend with merchants and East & Partners have found that the proportion of merchants actively surcharging their card based receivable transactions has risen significantly over the past five years. Further, over half of all businesses are also now planning or actively considering applying a surcharge, in part to offset merchant fees.

The depth of surcharging is also trending beyond simple recovery of Merchant Service Fees, especially with domestic online merchants. 28 percent of merchants who are currently surcharging are also applying different rates dependent on the card used in the transaction.

Diners Club experiences the highest level of merchant surcharging with Micro merchants applying an average rate of 5.0 percent on the transaction value and SME merchants 4.1 percent. By contrast both Institutional and Corporate merchants surcharge at the highest rate on AMEX card transactions at 2.9 percent.

As well as different surcharge rates, large institutional merchants are also more likely to apply a surcharge in the first place in comparison to their SME counterparts with 39.0 percent of Institutional merchants applying a surcharge on their customers using Visa during a transaction while only 19.9 percent of SMEs do the same.

Interestingly, fully 53.6% of SME's apply a surcharge on AMEX users compared to only 21.0% of Micros. Whilst, as the RBA has rightly noted, there is a proportion of "blended surcharging" occurring in the market, we see significant levels of differential surcharging by merchants, both in terms of the proportion of merchants surcharging and the level at which they are doing so.

Surcharge incidence and rates vary not only by card type but also very significantly by merchant type (where a merchant segment has some pricing power, both incidence and rate tends to be much higher) and the payment channel involved (online merchants evidence substantially more aggressive surcharging behaviour than high street, terminal present retailers – typically twice as high).

What is the RBA doing about it?

The RBA seemingly has two options. The first option could be for the Payments Board to determine a specific cap that schemes could impose, possibly expressed as a percentage of the transaction value. While this option has the appeal of being transparent and easy for schemes and consumers to monitor its difficulty is in determining the appropriate level of the cap.

The second choice is to adjust the no-charge rule to allow schemes to limit surcharges to an amount that is either equal or reasonably related to that of the merchant's service fee. The RBA is now asking for interested parties such as card schemes to come forward and submit their thoughts and recommendations on the subject of surcharging and ways to keep excessive surcharging in check.

For additional information or analysis and interpretation of surcharging please contact Sian Dowling on sian.d@east.com.au. A detailed Merchant Acquiring & Cards Markets report (MA) is also available by subscription.

Source: East & Partners Australian Merchant Acquiring & Cards Markets report (MA). A six monthly analysis among Australia's Top 500 companies by revenue (A\$530+ million annually) as well as a robust, structured sample of corporate businesses (annual turnover A\$20 to 530 million), SMEs (A\$5 to 20 million annual turnover) and Micro businesses (A\$1 to 5 million annual turnover).

