

## **Submission to the Financial System Inquiry**

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Our association represents 1000 small retail businesses in Victoria. An ongoing issue for our members is that the cost of accepting cards is higher for small business than for large, national retailers such as the supermarket chains.

This puts small businesses at a distinct disadvantage. Not only is it unfair, there is no logical reason behind this higher cost structure. Smaller operators already pay rental for our merchant terminals, and while we accept that there should be some cost associated with accepting cards, this cost should be reasonable and applied evenly across the board. The current cost structure has allowed the large supermarket chains to drive a competitive wedge between what they are charged for each transaction and what all other retailers are charged.

Prior to the last fee increase our members were able to be classified as “supermarkets” and enjoyed a fee structure that was much better than any other small business type. I questioned this at the time but was advised that the fee structure was not determined by the banks. For a short period this allowed our members access to fees that were better than any other retailers currently using EFTPOS facilities. .63% on credit card purchases and zero cost on debit card with a rebate of 15 cents for every cash out transaction. Overnight these charges increased to .8% on credit cards and an 18 cent charge for all debit card transactions. The banks who increased these charges insisted the costs were dictated by forces beyond their control but I know the supermarket chains were not required to pay such an increase and now enjoy a healthy competitive advantage to all small businesses to which they are direct competitors such as florists, butchers, bakers, chemists and greengrocers as well as our members.

There are two things the FSI could do to assist members in our association. The first is to require an annual (rather than once every three years) reset of interchange. This would stop prices hiking up every three years in between resets. The second is to regulate all payment companies equally. We don't understand why for example American Express is not regulated, but others are. Not many of our members accept American Express at the moment, but they would if American Express were cheaper.

I also question the relevance in having a weighted average maximum cost when this would only allow the large supermarkets to place themselves in the cheaper end of the scale and force small businesses to pay more. How is it fair that 98% of businesses pay more so 2% can pay nothing. The maximum cost should be just that and not be deceiving by calling it a weighted average.

We urge the FSI to consider measures that will create a fairer system and share the costs of card acceptance more evenly between large and small businesses.