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Price Monitoring and Regulation Division
Essential Services Commission
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CPVAA SUBMISSION: Taxi non-cash payment surcharge review 2019

The Commercial Passenger Vehicle Association of Australia (“CPVAA”) is pleased to submit a response to the Government’s Essential Services Commission’s (ESC) consultation paper entitled “Taxi non-cash payment surcharge review”.

The CPVAA is one of the largest registered organisations representing the viewpoint of all participants in the point to point personal transport industry – be they business owners, operators or drivers. The CPVAA was incorporated on 13 July 1991 and was re-invigorated four years ago when André Baruch and Rod Barton joined the board as Vice-President and President respectively.

In the last four years we have grown from being a representative body for a small group of Hire Car operators to one of the largest registered organisations in the point to point industry. It is in this capacity that we submit our response to this consultation paper.

Before we begin, we note with some sadness that, in our opinion, the objective of the commission, in this case, is insufficient. The ESC States that:

Under the Essential Services Commission Act 2001 (Vic) the objective of the commission is to promote the long-term interests of Victorian consumers. The commission must in seeking to achieve this objective have regard to the price, quality and reliability of essential services. In addition, the commission must have regard to a range of matters outlined in appendix D.

It is our opinion that the ESC should also be seeking to promote the long-term interests of the providers of these services. As is known the point to point passenger sector enables businesses to flourish, both with owner-drivers and with larger fleet operators. We believe care must be taken to ensure they are not inadvertently harmed by the actions of the ESC. To that end, while it is not a part of this consultation paper, we believe the ESC should take a fresh look at the maximum taxi fare allowed to be charged to ensure this level of fare covers all costs **while allowing the participants in the industry to earn a minimum living wage.**



Stakeholder Questions:

- 1) *Are there any other stakeholders in the taxi non-cash payment industry that we should contact as part of our review?*

The CPVAA notes we haven't formally been consulted, and it appears other industry groups haven't been consulted either. We believe consultation with the industry peer-elected representative bodies would be a good idea for the ESC to do as it will allow them to hear the industry voice.

We also note the ESC does not appear to have contacted any consumers of the services being reviewed. In our view this is strange as the outcome of this review directly affects the users.

- 2) *Is there any part of the supply chain that we appear to have mis-understood?*

The CPVAA believes that the ESC, on the basis of the set-out of their discussion paper, appears to understand the point to point travel industry.

- 3) *What evidence is there that the current 5% surcharge is lower than, higher than, or reflects the reasonable cost of accepting and processing non-cash payments*

From an industry point of view, we believe the 5% surcharge reflects an accurate cost of accepting and processing non-cash payments. The author of this response has run a business where merchant processing was carried out. When the time taken to process, reconcile and audit multiple merchant transactions is taken into account the 5% surcharge is definitely defensible.

- 4) *What sources of information should we consult when accessing reasonable costs?*

The ESC should be speaking with all of the following groups

- Small merchants that process transactions for their own fleet of cars (from fleet size one to whatever);
- Merchants that process transactions for others (usually taxi / hire car groups); and
- Large commercial providers of merchant processing information.

- 5) *Are the costs of acceptance included in the RBA's merchant surcharge standard reflective of the reasonable cost of processing non-cash payments for taxis? If not, which costs should be included or excluded?*

The CPVAA believes the costs of acceptance as described in the RBA's Merchant Surcharge Standard are not sufficient as and of themselves to totally cover the taxi industry as they do not cover two main areas of payments generally accepted by taxis – namely Diners Card and CabCharge. These merchants, from the author's experience, generally are not shy to charge for the use of these services, and these greater charges (when compared with, say, Visa or

Mastercard) are reflected in the greater cost of providing services. This is particularly notable when providing services for other organisations that use these providers exclusively (for example, the Department of Defence used Diners Cards as their payment method of choice for its members).

The CPVAA also notes that while there is an average cost of acceptance this may work statistically but the actual cost to the provider (merchant) may be higher due to the proportion of clients that use the premium credit cards that attract a higher fee from the merchant providers.

The CPVAA believes in the case of taxis the 5% fee currently allowed only just covers the reasonable costs of providing non-cash payment options to the travelling public.

6) *What are the advantages and disadvantages of using bottom-up cost assessments for the reasonable cost of accepting and processing non-cash payments?*

The CPVAA is struggling to find any advantage of using a bottom-up cost assessment of the reasonable costs of accepting and processing non-cash payments. To accurately calculate this the ESC would have to audit every provider – every company and individual that offers the non-payment services – to accurately assess what their costs are. As each individual / company operates differently, with different corporate outlooks, rules and regulations, the effort involved to undertake this task is Herculean, even Sisyphean.

7) *What are the advantages and disadvantages of using benchmarking methods to assess the reasonable cost of accepting and processing non-cash payments?*

It is the view of the CPVAA that the ESC should run a benchmarking process to assess the reasonable costs of accepting and processing non-cash payments. The information required can be easily generated and by benchmarking a few of the participants in the industry the ESC will be able to get a quick result.

8) *What differences in costs would need to be taken into account if benchmarking non-cash surcharges from taxi payment processors and other payment terminal providers?*

Currently the main taxi payment processing devices are physically interconnected to the taxi meter. This leads to the two major differences that need to be taken into account:

- 1) The cost of interfacing from a terminal (other terminal provider) to a taxi meter (either physical or virtual);
- 2) The willingness or otherwise of the current meter providers to share that access.

9) *What other methods could we use to assess the reasonable cost of accepting and processing non-cash payments?*

At this point in time, and given the time constraints on the ESC, the CPVAA is not aware of any other methods that could be effectively used to assess the reasonable cost of accepting and processing non-cash payments.

10) *Should there be a single maximum surcharge for all types of payment methods? Why or why not?*

The CPVAA believes there should be a single maximum surcharge for all types of payment methods as this leads to simplicity and minimal time wasting and confusion for the travelling passenger. This review is aimed at making life simpler and easier for the consumer – having to wait while a charge sheet is consulted to determine what charge to use based on what non-cash payment activity is presented will not be an efficient use of time. We further note this is the simplest fee to calculate, and ensures mistakes are not made, and fraud cannot be committed (either deliberately or accidentally).

11) *Apart from accounting for different payment types, are there any other reasons why there should be multiple maximums?*

We don't believe so.

12) *What do you think are some of the key consequences of having a single maximum surcharge or many maximums?*

See above in answer 10

Conclusion

The CPVAA notes the 5% threshold has been established, and become the default norm across industry in Australia in all districts except Tasmania. The CPVAA is of the view this should not be changed for the following reasons:

- 1) In some cases, taxi operators receive a small commission from brokers for using their non-cash payment system; and this constitutes a part of their already limited income. By reducing the maximum surcharge this income will be removed.
- 2) The cost of research, provision of equipment, administration, rebates etc borne by the non-cash payment system provider already totals approx. 3-4% (of the total fare) thus leaving a very small margin (1- 2% of the total fare) as gross revenue. These operators are struggling already and if this margin is reduced or removed in totality there is a very real chance that these operators will go out of business and not provide non-cash payment solutions. In the case where the non-cash payment processors decide to exit the business this opens the market up to scammers and other non-scrupulous operators.
- 3) If the surcharge is reviewed there is the very real chance the perceived cost of providing the service (5%) will be charged to the travelling public in other ways – possibly through either a larger flag fall or a change (increase) in taxi fare rates to help absorb the cost and ensure that the operator doesn't lose money. In this case the non-cash payment provider exits the market, but the cost of the surcharge is simply hidden in other methodologies. This also raises the question of how the base taxi fares are calculated – what fees are hidden in the published rates that the ESC sets.

I look forward to being able to address the Committee when called upon.

With best wishes

André Baruch

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President - CPVAA