

**27 September 2013**

Dr Ron Ben-David  
Chairperson  
Essential Services Commission  
Level 37  
2 Lonsdale Street  
**MELBOURNE VIC 3000**

Dear Dr Ben-David,

**TAXI FARE REVIEW 2013-2014 CALL FOR IDEAS**

I refer to Essential Services Commission's (ESC) September 2013 paper seeking comments on the review of Taxi Fares in Victoria.

National Billing Group Pty Ltd (NBG) and its trading operations CabFare Pty Ltd have reviewed the paper. Set out below are NBG's observations on the issues underlying Taxi fare setting as well as our response to some of the specific matters on which the ESC has sought input.

*Why NBG/CabFare is an Interested Party*

National Billing Group Pty Ltd (NBG) and its subsidiary CabFare Pty Ltd (CabFare) have been in the payment systems market since early 2008 offering EFTPOS and payment processing services to operators in the taxi and limousine (Hire Car) markets across Australia. NBG is an SME with a high exposure to EFTPOS as it underpins its primary business offering.

Our primary focus has been to offer simple, fast and secure electronic transaction services to our customers. NBG partners with Tyro Payments Limited (an APRA licensed ADI) providing customers with a fast and secure real-time EFTPOS payment system. It is the only payment system operating in Taxis in Australia that offers customers, drivers, and operators with real time online transaction reporting to better manage their business. The Taxi Industry is a high-risk industry prone to card fraud and identity theft via skimming and card not present fraud.<sup>1</sup> Accordingly it presents special challenges in the development and operation of EFTPOS systems.<sup>2</sup>

NBG's business is as a Merchant Network Service Provider (MNSP) servicing the Taxi and Limousine industry. Therefore NBG is not only a Merchant but also a Payment Service Provider. As such NBG provides service aggregation and payment services to a market segment characterized by parties who are:

1. Disenfranchised by the traditional banking systems; and/or
2. For whom there are specific payment system requirements and the cost of meeting these for an individual is too high; and/or

---

<sup>1</sup> APCA Fraud Statistics Report for 2012 highlighted the growth of such fraud in Taxis.

<sup>2</sup> AMEX categorizes EFTPOS in Taxis as being high risk on a level equivalent to On Line Gambling and Personal Services (i.e. Sex Workers and Brothels) and prices risk accordingly.

3. For whom the costs of regulatory compliance are too high<sup>3</sup>.

NBG assumes these costs and risks and prices them into its service offering for drivers and operators in the Taxi and Limousine Industries.

## **General Observations**

Within the context outlined in the ESC's "Call for Ideas" NBG submits that:

1. There is a clear need to reform the methodology underpinning the setting of taxi fares to break out of the constraints imposed by legacy methodologies that have been in place for decades.
2. Existing methodologies in Taxi fare setting are likely to prove inadequate in addressing the wide ranging community concerns regarding industry performance as witnessed by the findings of the Victorian Taxi Inquiry.
3. Regulatory theory and practice, combined with the experience of other network industries, provides proven methodologies that can be applied to Taxi fare setting. Accordingly fare setting based on a building block model provides an effective starting point for consideration.
4. Pricing signals should be used to underpin other industry reforms being pursued by the Government in response to the Taxi industry Inquiry report. (E.g.) Pricing signals that focus on time of day and locational pricing are likely to maximise shifts in both passenger and driver behaviour and thus should be encouraged.
5. Fares in Taxis should be simplified. Simplification of fare structures across the entire State will lower passenger confusion and misunderstandings thus affording a safer environment for both drivers and passengers.
6. The abolition of the high occupancy fees for WAT should be abolished as it acts as a disincentive to making the WAT available for its primary target market.
7. Use of higher "postage stamp pricing" (e.g. a flagfall of \$10.00, which includes a 5km allowance) would alter the driver behaviour and passenger expectations with respect to short trips in the CBD as well as suburban and rural areas. Postage stamp pricing is an effective method of recovering fixed operational costs.
8. Applying a higher postage stamp will enable abolition of the fees imposed when the speed of the vehicle drops below 21kph. In turn this will simplify metering.
9. Outdated ancillary charges such as the telephone-booking fee should be abolished. This would complement the reforms proposed for booking and network affiliation and encourage the deployment of more flexible "App" based booking systems particularly by the established networks. Retention of booking fees only encourages the retention of legacy systems and technologies.
10. Approximately 60% of taxi fares by \$ value are paid for by Cash. The heavy bias in taxi fares towards cash payments needs to be addressed. The use of cash for Taxi payments

---

<sup>3</sup> In the industries in which NBG operates there are specific regulatory requirements imposed by the ATO and State based regulators not found in other industries. A significant part of the business of NBG is meeting these requirements for its customer base.

exposes Drivers to risk of serious assault and robbery and drives up operator and network costs, and a loss of community social welfare via the criminal justice, policing, and health systems. These are the same reasons the State Governments, are removing the option of cash payment from Public Transport fare systems.

As Visa Australia identifies the costs of cash handling is significant and often not considered. In taxis EFTPOS Card payment reduces the risk to the Driver and the Costs to the operator. Instead the Merchant Network Service Provider (MNSP) (e.g. NBG/CabFare) assumes the risks associated with Taxi payments.

If cash is to continue to be accepted as a means of paying a taxi fare then a risk premium should be recovered from those Passengers electing to pay with cash rather than by Card. Given the other reforms of Government either an ad valorem of 5% of the trip fare or a fixed charge of \$2.00 should be charged for payments by cash.

## **Conclusion**

The existing approaches to fare setting needs a radical overhaul. NBG supports:

1. Stronger pricing signals available from locational and time of day pricing to address supply/demand issues.
2. Increased uniform postage stamp pricing (including a 5km allowance) to overcome short trip refusal issues from Drivers as well as to meet more of the fixed costs of taxi operation.
3. Fare structures should be simplified by abolishing ancillary charges associated with bookings, and waiting/low speed fees.
4. The abolition of the high occupancy fees for WAT should be abolished as it acts as a disincentive to making the WAT available for its primary target market.
5. The use of cash for Taxi payments exposes Drivers to risk of serious assault and robbery and drives up operator and network costs resulting in a loss of community social welfare. A risk premium for accepting cash should be recovered from those Passengers electing to pay with cash rather than by Card. Given the other reforms of Government either an ad valorem of 5% of the trip fare or a fixed charge of \$2.00 should be charged for payments by cash.

We are available to meet with ESC officers to discuss any of the matters contained in this submission.

Yours sincerely



**David Hamilton**  
**General Manager**  
**Strategy and Regulation**