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Credit Card Surcharging

Submission of the Accommodation Association of Australia

Introduction

1. The Accommodation Association welcomes the opportunity to provide input into the Payments System Board's (the board) public consultation on potential modifications to the "no-surcharge" Standards (the standards) that apply to credit card and debit card systems in Australia.
2. The board is responsible for the Reserve Bank of Australia's (RBA) payments system policy,

About the Accommodation Association

3. The Accommodation Association of Australia (the Accommodation Association) is the national industry body for the Australian accommodation industry.
4. Members of the Accommodation Association include major hotels, resorts, motels, motor inns, serviced and holiday apartments, bed and breakfasts, guesthouses, backpackers and time-share establishments in metropolitan, regional and rural Australia across all States and Territories.
5. The Association's membership base includes almost 2000 properties and more than 110,000 guest rooms.
6. The Association's members include major international hotel chains, including Accor Hotels, Mirvac Hotels and Resorts, Toga Hospitality, Mantra Group and InterContinental Hotels Group.

The Accommodation Sector – An Integral Part of the Tourism Industry

7. Tourism generates \$92 billion annually in spending.
8. Around 500,000 Australians are employed in the Australian tourism industry. The vast majority of employees within tourism work in accommodation businesses.
9. As an industry, tourism contributes \$33 billion in gross domestic product (GDP).
10. Tourism is Australia's leading services export earner, contributing \$24 billion or just over 10 per cent of Australia's total export earnings.
11. Around 75 per cent of the tourism industry is accounted for by domestic tourism.
12. Tourism has a number of unique characteristics in comparison to other industries. These include:

- It is highly labour intensive;
- It requires the input of many service providers into a single “product” to the end consumer;
- It is dominated by a significant number of small businesses;
- Tourism competes against all other discretionary expenditures for the “hearts and minds” expenditure of the consumer; and
- Tourism businesses operate in a highly complex environment requiring significant compliance skills and costs.

13. Many of Australia’s tourism accommodation businesses are struggling to be profitable. This is because of a downturn in tourism due partly to the global financial crisis and natural disasters such as major floods in Queensland and Victoria and Cyclone Yasi in Far North Queensland.

The no-surcharge standards should not be changed

14. It is the submission of the Accommodation Association of Australia that the current no-surcharge standards should not be altered in any way.
15. Tourism accommodation businesses within Australia do not impose excessive surcharges on customers who pay by credit card for goods and services provided by these businesses.

Customer Payments in the Accommodation Industry

16. In 2011, the vast majority of customers of accommodation businesses in Australia pay for accommodation, food/beverages and other services provided by accommodation businesses by credit card or electronic funds transfer at point of sale (EFTPOS).
17. This means that any changes to the current payments system have the potential to have substantial cost ramifications for accommodation businesses.
18. The Accommodation Association notes that the Payments System Board is considering two possible options which would involve change – imposing a specific permissible cap or limiting surcharges to a reasonable amount.
19. The Association asserts that should the board decide to pursue either of these options, a major distortion of the current market across all businesses would be the likely outcome and this would, in turn, have the potential to impose significant unforeseen costs on the accommodation industry at a time when it is still in recovery mode from the global financial crisis and recent natural disasters in Australia.

Credit Card Surcharges in the Accommodation Industry

20. There is intense competition among Australia’s tourism accommodation businesses and the quality and quantity of businesses within the industry are such that if the costs, facilities, style and type of a particular accommodation establishment are not to the liking of the customer, then he

or she invariably chooses to stay at a competitor hotel, resort, motel, motor inn, serviced/holiday apartment, bed and breakfast, guesthouse, backpacker or time-share.

21. The highly competitive nature of the industry means that the imposition of additional costs on consumers – such as credit card surcharges – is a major decision for an accommodation business.
22. Similarly, the level of such costs is determined only once a number of factors are taken into consideration, notably cost recovery. Therefore, there is a strong element of self-regulation around fees and charges, including credit card surcharges, in Australia’s accommodation industry.

Disclosure of Credit Card Surcharges in the Accommodation Industry

23. Accommodation businesses have a strong ongoing commitment to being open and transparent with customers and consumers more broadly about any costs. This extends to room rates, food-and-beverage charges (where it is standard practice for customers to sign an acknowledgement of the charges they have incurred), incidental charges (such as internet access) or any other costs.
24. Consistent with this, accommodation businesses provide prominent and transparent disclosure of credit card surcharges to customers and potential customers.
25. There are many methods of disclosure within the industry, with the two major ones being:
 - Signage at the point of sale; and
 - Staff seeking verbal permission from customers before charging them surcharges.

This is in keeping with the outstanding service culture that exists within Australia’s accommodation businesses, a culture which is an integral part of this nation’s tourism product and international reputation.

Surcharge Levels in Australia’s Accommodation Industry

26. In the past five years, businesses within Australia’s accommodation industry have increasingly chosen to impose surcharges on customers who pay for goods and services using credit cards. There are some businesses within the industry that do not charge credit card surcharges.
27. For accommodation businesses that impose credit card surcharges, these surcharges take one of two forms:
 - A fixed percentage of the payment amount; or
 - A fixed monetary fee.
28. The levels of surcharges are entirely at the discretion of individual businesses operating within the accommodation industry.
29. Feedback from members of the Accommodation Association about policies within their businesses about the level of surcharges has indicated that the principal factor in determining the level of credit card surcharges is cost recovery.
30. On behalf of the industry, the Accommodation Association rejects any suggestions that tourism accommodation businesses are using credit card surcharges purely as a means of raising extra revenue or “profiteering”.

31. As well, the competitive nature of our industry means the practice of imposing credit card charges that represent significantly higher amounts than the costs of the business providing credit card services to customers is not sustainable. This contrasts with other sectors, e.g. taxis which have a payments system that is, effectively, a monopoly.
32. Data from leading credit card company American Express does not support that there is excessive surcharging.

Blending of Surcharges

33. Blending of surcharges or parity surcharging, where different credit cards are surcharged at the same rate despite difference in acceptance costs, takes place in some tourism accommodation businesses within Australia.
34. Tourism accommodation businesses which have this policy have taken into account a number of factors before choosing to have a flat surcharge for customers making payments using credit cards.
35. Such factors include, but are not limited to, business relationships between an accommodation business (merchant) and credit card companies, the fact that credit card transactions involve interaction with staff on a 24-hours-a-day/seven-days-a-week basis (these are the trading hours of many of Australia's tourism accommodation businesses), the existence of different types of credit cards (premium cards, etc) and to minimise the expense of administration/red tape.
36. Blending of surcharges is a representation of market forces acting to reinforce healthy competition.

Conclusion

37. There is no tangible evidence in the accommodation industry for there to be a change to the current credit card surcharging regime.
38. Any change would have a serious negative financial impact on tourism accommodation businesses.
39. The Association looks forward to further engagement with the Payments System Board on this important issue and would be pleased to arrange a site visit of a tourism accommodation business if it would give the board a greater insight into the practical applications of the current surcharging regime.

Date: 20 July 2011

Richard Munro
Chief Executive Officer