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NETS FEE HIKE

A test of dominance

By Ivan Png

LAST Sunday, the Network for Electronic Transfers Singapore (Nets) raised its fees to merchants for debit transactions. The merchant fee varies by industry and transaction volume. Prior to the increase, the fee ranged between 0.35 per cent and 0.55 per cent.

From last Sunday, the highest fee will be 1.9 per cent, which is more than three times the previous high. Nets is reportedly offering lower fees of 1.05 per cent to 1.15 per cent to retailers who do not use other electronic payment facilities.

Nets was established in 1985 by Singapore's local banks: DBS, Keppel Bank, OCBC, OUB, POSB, Tat Lee Bank and UOB. With subsequent consolidation of the banking industry, Nets is now owned by just three banks - DBS, OCBC and UOB.

It is common practice among banks that issue credit and debit cards to levy an 'interchange fee' on all transactions. For instance, if I charge \$100 to my Citibank Visa card at Harvey Norman, then Citibank would collect a percentage of the \$100 in an interchange fee.

Historically, the banks issuing Nets cards did not require Nets to pay the interchange fee to them. However, Nets now contends that if it does not pay an interchange fee, its shareholder banks would cease to issue Nets cards. The increase in the merchant fee effective from last Sunday is to cover an interchange fee as high as 1.45 per cent.

In Singapore, Nets terminals are almost ubiquitous. Indeed, its corporate website declares proudly: 'With 30,000 points of access at 19,000 outlets, Nets has become an almost indispensable method for day-to-day purchases.'

Merchants also pay a monthly fee of between \$60 and \$80 for each Nets terminal. Nets' annual revenue from these subscriptions would exceed \$21.6 million.

Hence, it was not surprising that the Consumer Association of Singapore (Case) complained about the fee increase to the Competition Commission of Singapore (CCS). However, the CCS decided that the fee increase did not infringe Section 47 of the Competition Act.

Section 47 prohibits any business from abusing a dominant position in its market. In justifying its decision, the CCS appeared to take the position that Nets does not have a

dominant position.

Although Nets itself proclaimed its card to be 'almost indispensable', the CCS stated that there were many substitute payment methods, including credit, debit and ez-link cards.

Last year, the CCS commissioned New Zealand consultants Castalia to study the competitiveness of payment systems in Singapore. One presumes that the Castalia report would have had a bearing on the CCS view on Nets' fee increase. If so, and in any case, for transparency of government, shouldn't the CCS publish the results of the Castalia study?

The key issue is whether a business has a dominant position is its share of its market.

Payments by Nets are limited to a maximum of \$500. Many retailers will not accept credit cards for small transactions, but will accept Nets. Petrol stations will not accept credit cards for purchase of parking coupons, but will accept Nets. So, if the relevant market is for small transactions, are there indeed so many substitutes as the CCS asserts?

Ironically, Nets' fee increase means that we will soon know the answer. If the fee increase results in little or no impact on the number of retailers accepting Nets cards and the number of Nets transactions, the conclusion must be that Nets indeed has few substitutes. The lack of effective substitutes is crucial evidence of market dominance.

Hopefully, Case and the CCS will make sure to collect the appropriate data to determine the impact of the Nets fee increase. With this information, it would then be possible to empirically establish whether Nets has a dominant position in its market.

If Nets does indeed have a dominant position, then it would be prohibited from discriminatory practices that limit competition. In this light, it would be interesting to know whether the CCS considers a merchant fee that is conditional on the merchant not using other payment systems to be anti-competitive.

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