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22 June 2018

Black Economy Division

The Treasury

Langton Crescent

PARKES ACT 2600

**Introducing an Economy-Wide Cash Payment Limit – American Express submission**

Dear Sir/Madam,

American Express welcomes the opportunity to provide comment on the Australian Treasury discussion paper for the Black Economy Taskforce review of introducing an economy-wide cash payment limit in Australia.

As one of the world’s largest electronic payments providers with a significant presence in the Australian market, American Express believes any actions taken by the Australian Government to support the removal of cash from the market is a positive step towards the establishment of a cashless economy.

As a global payments network operating in more than 130 markets internationally, American Express is uniquely placed to provide advice and support to the Australian Government as it investigates and consults on policy measures to support the eradication of the black economy.

Should you require further information or advice on this matter, please do not hesitate to contact me at any time. American Express looks forward to working with The Treasury on these issues into the future.

Yours sincerely,



**Jon Stewart**

Vice President, Corporate Affairs and Communications

Australia and New Zealand

American Express





Australian Treasury

Economy-Wide Cash Payment Limit

American Express submission

June 2018

**Introduction**

American Express welcomes the opportunity to provide comment as part of the Australian Government’s Black Economy Taskforce review and further consultation leading towards the introduction of an economy-wide cash payment limit of $10,000 from 1 July 2019.

American Express supports this initiative and the efforts of the Australian Government to eradicate the effects of the black economy in Australia. As outlined within the Black Economy Taskforce report, these changes will not only help Government achieve greater taxation revenue, remove criminality and illegality and safeguard the integrity of the payments system, they will also deliver a host of other benefits for both consumers and businesses, while supporting a greater shift towards a cashless economy.

**About American Express**

American Express is a global payments network with direct relationships connecting consumers, businesses and merchants. It provides innovative payment, travel and expense management solutions for individuals and businesses of all sizes. With a 168 year history built on service, trust and security and with one of the most recognised brands globally, American Express aspires to provide the world’s best customer experience every day. American Express has been backing Australians since 1954 and the first American Express card was issued in this market in 1974. Deeply committed to the supporting growth and economic prosperity, we employ more than 1,400 Australians across the country.

As a global payments network, American Express processes more than US$1.4 trillion in transactions globally per year across 130 markets. In addition, with over 112 million American Express cards in circulation, accepted by 18 million merchants world-wide, American Express is the world’s largest card issuer by purchase volume.

American Express operates a closed loop, proprietary payments network, in which it acts as both issuer[[1]](#footnote-1) for cardholders, and acquirer[[2]](#footnote-2) for merchants. In particular, the vast majority of American Express-branded cards worldwide, and the vast majority of transactions on these cards, are issued and acquired by American Express itself. This is in contrast to the four party models used by the Visa and Mastercard networks, which neither issue cards nor acquire transactions – these processes are instead completed by their member financial institutions, with Visa and Mastercard operating simply as the payment networks.

**The growing popularity of electronic payments**

The Australian payments market is one of the most developed in the world, with a high penetration of card products – an average of three per consumer or 72.6 million in total[[3]](#footnote-3). Payment cards made up 38.7 per cent of point of sale transactions in 20173, and while cash remains the dominant payment instrument in terms of volume of transactions, it is mainly now mostly reserved for low value transactions. The median size of a cash payment in 2016 was $12, which was the same figure as recorded in 2013, and less than 20 per cent of cash transactions were on purchases of more than $100[[4]](#footnote-4).

The use of cash is on the decline. In 2007, 69 per cent of all transactions in Australia were paid in cash, with this figure dropping to 37 per cent in 2016[[5]](#footnote-5). An increasing number of businesses have stopped accepting cash all together in Australia, noting the increased cost and decreased utility of accepting cash as a means of payment. An example of one such business is Cannings Butchers, a chain of three stores in Melbourne, which no longer accepts cash as payment believing it to be both “unproductive and unhygienic”[[6]](#footnote-6).

The use of electronic payments is only tipped to rise, with estimates that by 2021 the total share of transactions in this market will reach $11.8 billion, up from $8.2 billion in 2017. The total number of cards in circulation in Australia is anticipated to reach 83.9 million by 2021, with growth expected across all three card types (prepaid, debit, and credit)[[7]](#footnote-7).

The Australian card payments market is highly mature, with almost twice as many debit cards as individuals in 2017[[8]](#footnote-8). And while debit cards enjoy the majority share of the electronic card landscape – 66% of payment cards are debit – the combined share of credit and charge cards is still significant at 34 per cent[[9]](#footnote-9).

In a market like ours, with the increasing reliance on electronic payments and use of cash overwhelmingly used for low value transactions, the conditions are optimal to introduce a cash payment limit with minimal disruption to both consumers and businesses.

**The benefits of electronic payments**

Aside from the obvious benefits of ease of use and convenience, the advantages of electronic payments to the cardholder and merchant are significant and wide-ranging, and are often heightened for larger-sized transactions, such as those in excess of $10,000.

**For cardholders**

Credit products provide enormous cash flow benefits that give cardholders the flexibility to ‘buy now and pay later.’ With some products providing up to 51 day payment terms, cardholders can access capital immediately without needing to go through separate approvals and verification checks as they would be required to do if applying for any other short-term, unsecured finance solution.

With some experts predicting tighter lending conditions due to global market volatility, and with cash flow essential, particularly for small businesses running on thin margins and short payment terms, credit products are an essential lifeline, supporting the growth of business and the spending needs of their customers.

The breadth of choice in electronic payment products - from prepaid cards that allow users to load money onto a card prior to use, debit cards that draw down funds from a cardholder account, or credit and charge cards which rely on unsecured funds from a financial services provider - means there is considerable choice and flexibility for cardholders. Strong market competition from a range of providers has created a comprehensive range of card options for all types of user according to their needs – from low rate products, to those seeking a premium value experience, including those offered by American Express, that include an extensive range of experiences and benefits.

In more recent years, innovations such as contactless payments, wearables and mobile wallet technology, such as Apple Pay, Samsung Pay and Android Pay, have only added to consumer demand. In fact, around 75% of all point-of-sale transactions from an international scheme[[10]](#footnote-10) were conducted using contactless cards in 2017, and our own efforts to increase American Express contactless card acceptance on merchant terminals, and our first-to-market partnerships with all three mobile wallets, has seen impressive adoption and usage rates amongst the American Express Card Member base.

Electronic payments include many sophisticated and advanced security benefits. These products remove the need for individuals to carry large quantities of cash which may be stolen, easily misplaced and difficult to track. Card products often include fraud protection safeguards that protect the interests of the cardholder in the event of fraudulent transactions, and EMV cards (chip-and-PIN cards), which are now standard on cards issued in Australia, generate a unique numeric code for every transaction, substantially reducing fraudulent card activity.

Digital wallet tokenisation has also created additional security measures for transactions made using mobile payments. This technology removes the need to disclose sensitive card information, such as the payment account number (the 11-13 digit card number known as the PAN), card verification code and expiration date. When a digital wallet uses a card for payment, it only provides the token to the merchant without exposing any of the sensitive card details. In the event of a card compromise, cardholders can receive new payment credentials immediately from the issuer direct to the digital wallet, allowing the cardholder to continue using the card without any significant disruption.

Other intelligent fraud detection systems offered by payment networks continually monitor spending patterns and detect irregularities. In the case of American Express, accounts are regularly scanned using analytic algorithms and in the event something unusual is detected, an American Express Card Member is contacted immediately and the liability for the transaction loss is not held by the cardholder. As a result of our sophisticated fraud detection capabilities, American Express has the lowest net fraud rate of any card provider.

Greater transparency and increased ease of spend monitoring are additional advantages afforded through the use of electronic payments. Mobile and online accounts, in addition to automated cash flow and spend reporting, and spending controls allow cardholders to easily track and regulate their spending. For a business, this increased transparency helps limit inappropriate spending or theft and facilitates simpler reconciliation and reporting by finance teams, improving internal efficiencies and reducing overheads.

Electronic payments paved the way for the e-commerce market and is supporting its exponential growth – valued in Australia at $36.7 billion dollars in 2017 and tipped to grow by almost 42 per cent by 2021[[11]](#footnote-11). The rapid adoption of smartphones, growing internet penetration, the availability of secure online payment systems, and improvements in the supply chain have all fuelled rapid economic growth and contribute significantly to increased competition, greater consumer power and innovation-led market evolution.

The evolution and development of products and services in the electronic payments sector have allowed businesses to obtain products that offer a wide range of additional features to provide greater flexibility and choice of payment options. Businesses that opt to carry a card product with an associated rewards program can earn points on their normal business procurement spending, while also allowing them to pay down their balance or reinvest the points generated back into their business. These flexible and innovative products are unique to electronic payments and allow businesses to generate significant value from routine operational practices.

**For merchants**

For businesses that accept electronic payments (merchants), card payments are widely acknowledged as a highly efficient, convenient and, in today’s economy, essential business process. A single contactless payment takes less than half the time of a contact payment[[12]](#footnote-12). As a two second change in tender time implies a one cent change in merchant costs, small efficiency gains or delays can make a large difference to the total resource cost of the transaction and to a merchants’ bottom line[[13]](#footnote-13).

A study conducted by Finder of nearly 7,000 adults, showed that US businesses choosing not to invest in a card transaction facility are losing an estimated 11.8 million customers each year. This means that a retailer with an annual turnover of US$2 million could lose US$73,000 in potential annual revenue. The same research also showed that 73 per cent of people would leave a store without making a purchase if it didn’t offer a card terminal if the consumer didn’t have cash on hand. And of that 73 per cent, 36 per cent said they wouldn’t buy anything from that store, and the remaining 37 per cent would try to shop elsewhere.[[14]](#footnote-14)

The benefits of electronic acceptance are also revealed through the true cost of accepting cash for a merchant. Many businesses often underestimate the total costs of handling, managing, securing and processing cash transactions – both in terms of time spent and financial outlay. In a report titled *“The Hidden Costs of Cash”* published in the Harvard Business Review in 2014, it was revealed that US retail businesses lose about US$40 billion annually due to the theft of cash alone. This cost is also disproportionately borne by small businesses, who often cannot afford sophisticated security and cash transportation services[[15]](#footnote-15). In Australia, since 2006, the cost of cash per transaction has risen as its use has fallen, and these costs are more heavily felt among smaller sized merchants[[16]](#footnote-16).

A lesser known benefit of electronic payments acceptance is the level of insight and data it provides to merchants. Today, card issuers, such as American Express, work with merchants to help better understand ways to attract new customers and enhance customer loyalty through rich insights based on consumer spending patterns and preferences. This intelligence helps businesses of all size better compete in an increasingly competitive marketplace and ensures consumers are being targeted with relevant merchant offers and information.

**For the economy**

The costs of cash to broader society is also creates major impacts with its continued use. Research has shown that many countries pay a significant price for the heavy use of cash. The heaviest of these is *“the cost borne by society at large because of the lost tax revenues due to the under-reporting of earnings and transactions”*[[17]](#footnote-17).

For government, the annual value of under-reported taxes in the United States is US$400 billion to US$600 billion. According to the National Taxpayer Advocate’s estimates, 52 per cent of this gap is due to under-reporting by self-employed taxpayers, and many estimates indicate that the majority of under-reporting is due to cash usage, meaning the US Treasury loses at least billions of dollars annually due to continued cash usage.

American Express supports the findings of the Black Economy Taskforce’s Final Report that large, undocumented cash payments pose significant risks to legitimate commercial behaviour. These risks have been duly highlighted by government and include businesses avoiding obligations under the tax and regulatory systems, laundering the proceeds of crime, and providing an unfair competitive advantage compared with businesses that meet their obligations.

Electronic payments help to circumvent some of these issues, and certainly minimise their impact, as they provide a clear electronic trail that can be tracked by tax officials and investigators. Comprehensive recordkeeping of transactions and an obligation to retain data for up to years at a time offers evidence on the purchasing patterns of individuals and trends in the broader economy that can help shape economic decisions and policies.

Cash is also the single most expensive payment instrument for the economy as a whole, costing businesses, including banks and merchants, some $2.9 billion, which accounts for more than a third of companies' total cost of payments. International scheme transactions totalled less at $2.2 billion, with eftpos domestic payments ranking third at $1.7 billion[[18]](#footnote-18).

A number of innovative policies have also been adopted in markets around the world to limit cash usage and reduce its negative impacts. Cash payment caps have been implemented in a number of countries including France, Belgium, Czech Republic, Poland, Italy and Spain. On 1 September 2015, the French Government lowered the cap on cash payments from €3,000 to €1,000, having been one of the first countries to introduce a cash limit in 2001. While different rules and frameworks apply in each circumstance, the primary intention of these nations has been universal – to curb the black economy. While there is anecdotal evidence of success, no formal evaluation of the efficiency of cash limitations has been undertaken in these markets to date.

**Implementation recommendations**

In implementing the economy-wide cash payment limit in Australia, American Express recommends the Australian Government look to international markets where cash limits are currently in place in order to better understand best-practice and identify further efficiency opportunities. This would provide insight into the positives and negatives of these policy measures, while helping to improve efficiency of any local implementation.

We encourage the Australian Government to consider whether the proposed notice period and implementation timeframe of 12 months will be sufficient to educate relevant Australian businesses, build the required policy framework to manage execution, and allow due consideration to the nature of exemption requests and how these are best handled.

The Australian Government should also ensure it works with industry, including representative and advocacy bodies such as chambers of commerce, industry associations and industry service providers, to ensure issues raised broadly by industry are considered comprehensively and ample opportunity is given to contribute to the ongoing policy debate.

In considering the end solution, the Australian Government should consider policy settings that are simple for business to understand and administer, which will ensure maximum compliance and rapid adoption. Government should work with industry to provide tools and resources to support training and education for administrative and front-line service delivery staff, including the publication of material to clearly explain and articulate the new policy prior to, and in the critical opening phases of, implementation. This could be as simple as providing signage for businesses to display at point-of-sale locations and online checkouts, material for employee training manuals, and broader advertising through a range of publicly consumable media channels.

Industry should also be encouraged and given the appropriate level of advice for implementing controls to safeguard against non-compliance. This is particularly pertinent where a business has multiple locations, as they become more vulnerable to consumers attempting to circumvent the new regulations by visiting multiple locations and transacting in smaller volumes under the newly introduced cash threshold. These controls could include providing business with procedural checklists to ensure they are able to identify risk and understand what actions to take, and/or mandate that businesses report large transactions, logged against the consumer’s name in a central reporting system overseen by a central enforcement and monitoring agency. These safeguards ensure a level of protection for merchants who seek to comply fully with the new regulations, while also placing responsibility onto the consumer to act in accordance with the law.

Appropriate education and awareness should also extend to inbound visitors to Australia to ensure awareness of payment restrictions prior to arrival and upon entry into the country. Government should consider whether any payment cap should be increased for non-resident visitors, similar to the existing policy in France, where a payment limit for non-residents is 15 times higher than for French residents. This approach warrants appropriate consideration given that international visitors can often be unfamiliar with the foreign payment landscape and carry large sums of cash to cover travel or business expenses.

Consideration should be given on how to prevent the division of cash payments to circumvent the cash threshold, for example, paying for a vehicle with multiple cash payments of $9,999 until the balance is paid off. Precedent for this has been set in countries like Slovakia, where in the case of payments made over 12 monthly instalments, each valued at €1,500, these are considered as one €18,000 value transaction. As such, these lower value monthly instalment payments are required to be processed electronically.

Consideration should be given by the Australian Government to monitoring and enforcement of any new policy, including whether warnings are put in place for first time offenders and whether a penalty scale exists based on the severity of the breach. Measures such as these may help deter reoffending and penalise those who deliberately seek to circumvent the system for nefarious purposes. Government should also consider which department or agency would hold monitoring and enforcement powers, for the new regulations and whether consumers and businesses can report instances of non-compliance. Given the existing structure of transaction monitoring and reporting, AUSTRAC would seem the most appropriate body to act in this capacity. However, it is essential given the critical national security role played by AUSTRAC that any additional responsibilities are accompanied by additional resources to ensure there is no reduction in their ability to perform existing functions, while also ensuring the new regulations are enforced and monitored appropriately.

Government should acknowledge that the majority of businesses are fully compliant with Australian law and should ensure any administrative burden is minimal. For example, if a cash transaction in excess of $10,000 is presented and an exception flagged, businesses should be able to register this exception easily and with minimal administrative requirement, and a timely determination should be made by the appropriate government body to ensure any business opportunity isn’t lost as a result.

As a potential exception, American Express recommends the Australian Government consider recent migrants coming to Australia, dependent upon the risk profile of the country they are leaving and the nature of their arrival. Many developing economies still maintain a high reliance on cash, due to a lack of developed electronic financial infrastructure and for cultural reasons. In the case of migrants arriving from high-risk countries, extra diligence and background verification/investigation should be undertaken as there are often limited or underdeveloped banking policies and practices in the originating country to prevent illegality and the spread of inappropriate conduct to Australia.

As part of this review, the Australian Government should also consider whether existing anti-money laundering and counter-terrorism financing (AML/CTF) monitoring processes are adequate and appropriately consistent with any new policy measures under the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* *(Cth)*. American Express recommends a framework be established to ensure relevant businesses are reporting suspicious matters to AUSTRAC, regardless of whether the activities are purely related to AML/CTF compliance or wider black economy activities. American Express also recommends the Australian Government ensure payment limit threshold terminology is consistent with the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* *(Cth)* to avoid confusion or misinterpretation.

**Ban on merchant surcharging**

With these changes mandating increased use of electronic payments, American Express believes it appropriate for the Australian Government to reconsider, in parallel, its current policy on merchant surcharging. Consumers should not be penalised for choosing electronic payment methods for transactions of any size, particularly when they are required to do so by regulation. Additionally, surcharges, often expressed as a percentage of the total cost, will frequently be higher for larger transactions, therefore unfairly penalising consumers for paying for higher value items.

American Express has always regarded surcharging as unfriendly to consumers, prone to exploitation by merchants with market power or seeking revenue expanding opportunities, and should not have been introduced in the first place. Despite new surcharging regulation, American Express remains of the view that the surcharging regime in Australia has delivered little to no benefit for consumers and adversely effects businesses, as a consequence of consumers choosing to shop elsewhere.

The European Parliament and The Council of the European Union have recently adopted a firm stance on surcharging, which sees surcharging rules across European Union differ dramatically from those in Australia. As of January 2018, surcharging has, for the most part, been banned in recognition that these hidden fees are unfair for consumers. Even in the very limited cases where the surcharge ban does not apply, new regulations limit the amount merchants can surcharge to the actual cost of acceptance – a similar policy to the recently adopted regulations in Australia.

In the United Kingdom, surcharging regulations are an extension of European Union rules under the second Payment Services Directive (PSD2) where, for the most part, surcharging any cardholder to use any card product was banned from 13 January 2018.

As part of the adoption of PSD2 in the United Kingdom, Economic Secretary to the Treasury, John Glen MP, stated that *“It’s completely unfair for someone to be hit by a hidden fee just before they are about to make a purchase, so by scrapping these rip-off charges we are helping to give power back to the consumer. As we build a fairer society, this added transparency ensures buyers can make informed choices about how they spend their hard-earned money.”*[[19]](#footnote-19)

With the cost of electronic payments for merchants on the decline and the breadth of benefits that electronic payments provide to business, it is unjustified that consumers should have to absorb costs that could otherwise be viewed as a ‘preferred payment penalty fee‘.

**Conclusion**

American Express supports the implementation of an economy-wide cash payment limit of $10,000. Given the prevalent and increasing use of electronic payments, we believe this will impose limited burden on consumers or businesses and will be advantageous to both sides of the market, while making a significant step towards eradicating the black economy – a significant cost drain on Australia.

We would encourage the Australian Government to ensure there is an appropriate level of consultation and education among businesses, business groups and associations, consistency in terminology, comparative analysis of other similar international use cases and that businesses be given the assistance they require to ensure they are fully compliant with any new regulations or legislation.

American Express strongly believes that as the Australian Government mandate the increased use of electronic payments, penalising consumers for adhering to these rules or adopting preferred payment methods is unfair and counterintuitive, and as such, we encourage the introduction of a ban on surcharging, similar in nature to the existing ban implemented in the European Union and United Kingdom.





1. A card issuer is a bank, credit union or other financial institution that provides card services (prepaid, debit or credit/charge) to a cardholder. The card issuer provides credit facilities or, in the case of prepaid/debit cards, a holding account to cardholders and is responsible for sending payments to merchants for purchases made with card products. [↑](#footnote-ref-1)
2. A merchant acquirer (also known simply as an acquirer) facilitates card payments on behalf of a merchant and provides the payment network systems and infrastructure to allow merchants to accept card payments. [↑](#footnote-ref-2)
3. Global Data, *Payments Landscape in Australia Opportunities and Risks to 2021*. November 2017. [↑](#footnote-ref-3)
4. Reserve Bank of Australia, *How Australians Pay: New Survey Evidence*. March 2017. [↑](#footnote-ref-4)
5. ibid. [↑](#footnote-ref-5)
6. Banter Payments News and Insights, “Melbourne Butcher Refuses Cash”. August 2015. [↑](#footnote-ref-6)
7. Global Data, *Payments Landscape in Australia Opportunities and Risks to 2021*. November 2017. [↑](#footnote-ref-7)
8. ibid. [↑](#footnote-ref-8)
9. Global Data, *Payments Landscape in Australia Opportunities and Risks to 2021*. November 2017. [↑](#footnote-ref-9)
10. An international scheme is one of the major payments networks operating globally with acceptance points in Australia. These include American Express, Diners Club, Mastercard, UnionPay and Visa. [↑](#footnote-ref-10)
11. Global Data, *Payments Landscape in Australia Opportunities and Risks to 2021*. November 2017. [↑](#footnote-ref-11)
12. Centre for Internet Safety, *The Truth About Contactless Payments*. March 2016. [↑](#footnote-ref-12)
13. ibid. [↑](#footnote-ref-13)
14. https://www.finder.com/small-business-revenue-losses-not-having-payment-facilities [↑](#footnote-ref-14)
15. Harvard Business Review, *The Hidden Costs of Cash*. 2014. [↑](#footnote-ref-15)
16. Reserve Bank of Australia, *The Evolution of Payment Costs in Australia*. 2014. [↑](#footnote-ref-16)
17. Harvard Business Review, *The Hidden Costs of Cash*. 2014. [↑](#footnote-ref-17)
18. Reserve Bank of Australia, *The Evolution of Payment Costs in Australia*. 2014. [↑](#footnote-ref-18)
19. https://www.gov.uk/government/news/card-surcharge-ban-means-no-more-nasty-surprises-for-shoppers [↑](#footnote-ref-19)