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ANF submission to RBA review of Card Payments Regulation Consultation Paper

The ANF appreciates this further opportunity to provide our members' views on Card Payments in our industry and to continue our engagement with this important review. The ANF supports a payments system that provides our members access to affordable and efficient systems for accepting payment, including fair surcharging, whilst remaining safe and robust for consumers. We believe a strong regulatory system is required to support this and it needs to be equitable and fair for all participants. It should also be flexible enough so that new payment systems can evolve and innovate and be covered by this regulation when appropriate.

The Australian Newsagents' Federation (ANF) is the peak national body, who along with affiliated state newsagent and lottery associations, represents some 3500+ small businesses in almost every rural town, regional centre, urban and metropolitan shopping centre in Australia.

Approximately 2.4 million Australians shop at their local community newsagent or lottery agent every day. We are well known and trusted within our local communities and make a significant contribution to Australia's economy, turning over \$2.1 billion annually and employing some 20,000 people. Newsagents' are one of the largest and most trusted independent retail channels in the country.

Newsagents are subject to a number of cost pressures that are distinct from those that affect large corporations and even many other small businesses. They are characterised by modest profit margins linked to fairly inflexible contracts. They are particularly vulnerable to increased costs as their margins are mostly set externally and change infrequently, consequently they have limited capacity to absorb large cost increases.

It is very important for our member small businesses to have access to cost efficient payment options. Unsurprisingly, our members are very concerned about rising costs of merchant fees as a result of the displacement of cash payments with card payments and the introduction of contactless payments that tend to incur higher costs for the merchant.

The ANF is committed to protecting the interests of our members around Australia, in order to ensure they continue to make a positive and sustainable contribution to the Australian community, as they have done for generations.

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The ANF has considered the options presented in the discussion paper and sought to address these by providing our views on the following issues below:

Companion Cards

The ANF in our previous submission highlighted the issue of competitive neutrality and we remain strongly of the view that all payment types should be captured by this regulation, or should be easily included if they impact regulated market participants as companion cards have. Our members report increased pressure to accept American Express cards as a result of companion card programs. Factors like this, along with a reduction in the use of cash and forced routing of contactless payments, have resulted in higher merchant costs in our industry. It is difficult for our members to increase prices to recoup these costs when we have limited control of margins and when surcharging is not generally prevalent due to competitive pressures. As a result, we strongly support inclusion of companion cards in interchange regulation given the similarities with existing card schemes. We support **Option 3: to Regulate issuer fees and other payments to issuers**. This is the most equitable approach for all parties and would lower card acceptance costs to merchants and therefore pressures to recoup those costs, therefore benefitting consumers.

Interchange Fees

Commercial cards: We support Option 1: of maintaining inclusion of transactions on commercial cards in the regulatory framework for interchange payments. We do not see a significant improvement in equity for merchants resulting from a relaxation of coverage of these cards from regulation.

Foreign-issued cards acquired in Australia: We support Option 2: Clarifying the definitions in the Bank's standards to include transactions in Australia with foreign-issued cards. Again, this is the most equitable approach for all parties and would lower card acceptance costs to merchants, ultimately benefitting pricing to consumers.

Prepaid cards: We support Option 3: to formalise regulation for prepaid cards consistent with debit standards. The regulatory framework should be consistent between prepaid and debit cards.

Benchmark compliance: We are supportive of increased equity in the cost of payments and reforms to keep average interchange more consistently below benchmarks. The spread of interchange rates between small and large merchants should be narrowed and as noted in the discussion paper, the current three-yearly compliance framework results in the cost of the upward drift in interchange falling most heavily on medium-sized and smaller merchants. Consequently, we strongly support Option 2: of Quarterly compliance, which we believe will reduce the upward drift of interchange and lower the costs to merchants.

Interchange benchmarks and ceilings:

As noted in the discussion paper, higher rates of interchange tend to be borne disproportionately by smaller and medium-sized businesses, as most do not benefit from 'strategic' and other preferential rates that are available to some larger merchants. Consequently, smaller merchants cover much of the cross subsidisation of benefits provided by premium cards. Reducing or eliminating the spread of interchange rates between small and large merchants to improve equity, along with lowering costs of acceptance should be the primary concern in reforming interchange benchmarks.

Small merchants like our members require transparency and more control to manage the growing costs of card acceptance. Regulation should support the underlying attributes and resource costs of different payment methods as the competitive drivers, as opposed to the size of the interchange payments. We should encourage new competitive payment methods to emerge in the market and cost efficiencies to be passed onto small businesses and their customers. The elimination of interchange fees should be very seriously considered now. The current model supports increasing the price of payment services to merchants, thereby resulting in higher retail prices of goods and services for all consumers which is not good public policy.

Of the options available, Option 3 a) & b): to Reduce the weighted-average interchange fee benchmarks to: a. 0.30 per cent for credit; b. 8 cents for debit, is the most equitable approach. It would benefit small merchants like our members to reduce their costs and assist consumers overall. As noted by the board though, there is little justification for significant interchange fee payments in mature card systems. Consequently, we support Option 3 a) & b): as logical steps towards eliminating interchange in mature card schemes. Option 3(b) should not be watered down as has been suggested in the discussion paper.

Scheme payments to issuers: The ANF strongly supports measures to avoid circumvention of regulation, which could impact competitive neutrality. We support Option 2: Limits on payments by schemes to issuers.

Surcharging: Given the governments stated views on surcharging being limited to the cost of acceptance, our members require an efficient definition and simple model for determining their cost of acceptance. They should not be exposed to any unnecessary risk when setting an applicable surcharge. The definition needs to be suitably robust so it meets the intent of the government's statement on surcharging, and so any definition won't be circumvented in any way when small merchants also make card payments themselves.

We support the banks draft in Option 3 to determine a definition of acceptance costs that strikes a balance between the aims of promoting efficient price signals and avoiding excessive complexity.

The improved transparency for small merchants through information being provided to facilitate greater understanding of the cost of accepting different card schemes will benefit our members. The ANF supports Option 3: Modifications to the cost of acceptance framework.

We appreciate this opportunity to again participate in RBA review of Card Payments Regulation.

Yours sincerely,



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