



**Submission to the
Reserve Bank of Australia
Review on Card Payment Regulation**

**THE AUSTRALIAN RETAILERS
ASSOCIATION**

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Australian Retailers Association

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Australian Retailers Association

- Voice of the Retail Industry

For over 110 years, the Australian Retailers Association (ARA) has been the peak industry body in Australia's \$300 billion retail sector which employs over 1.2 million people. As an incorporated employer body under the Fair Work (Registered Organisations) Act 2009 and with a range of member services including employment relations, policy development, advocacy and education, the ARA promotes and protects over 5500 independent and national retailers throughout Australia.

The ARA provides leadership and solutions to improve the long-term viability, productivity and visibility of the retail industry by proactively dealing with government, media and other regulatory bodies on behalf of our members. ARA members comprise a diversity of sizes and types of retailers reflecting the profile of the retail industry, ranging from large national chain retailers to one-person operators throughout the nation.

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OVERVIEW

The Australian Retailers Association (ARA) welcomes the opportunity to provide recommendations to the Reserve Bank of Australia (RBA) regarding the Review on Card Payment Regulation.

This submission focuses on the observations made and policy options put forward by the RBA with respect to the payments sector.

The ARA broadly supports the intent of the recommendations for payments in the report; however, we do have concerns that layering more regulation to rectify current regulatory issues could leave a more complex system which has not fixed the fundamental issues within the payments system. We would also see this as a set? in continued improvements to the payments system and that those improvements include all new electronic payment methods.

As outlined in our previous RBA submission, retailers in Australia are facing a difficult operating environment. In the last ten years, the structure of the retail sector has shifted and evolved as a result of globalisation, advances in the digital economy and changes to business practice policies (such as employment and changes to card payments).

The ARA offers support, information, and representation to around 5500 retailers

across the nation, representing approximately 50,000 shop fronts and works closely with Governments, the Reserve Bank of Australia (RBA) and other industry participants to ensure the long-term viability and position of the retail sector as a leading contributor to Australia's economy.

We believe that the ARA membership and retailers in general are well placed to comment on Australia's payments system having direct exposure to its operations and to its cost structures, which is particularly important given the level of competition.

The ARA represents the interests of merchants within the important payments sector of the economy. It is critical that the perspective of merchants is considered in addition to those of schemes, issuers, acquirers and cardholders. Merchants make significant investments in payments infrastructure and are essential components of the payments system.

The Reserve Bank of Australia (RBA) has been a global leader in reform of payments systems, particularly card payments systems, but Australia is now beginning to fall behind other jurisdictions around the world particularly with new innovative payment system costs and regulation. For this reason, we are proposing a cooperative approach with all key stakeholders to reduce regulation, lower costs for business and reduce or remove surcharging through those lower costs.

The ARA believes that there are a number of issues that have been identified in the RBA's proposal that need to be resolved to ensure that Australia's payment system remains competitive and to remove the harm of rising costs to retailers and consumers alike.

ARA POSITION

- The ARA and our merchants are concerned that the regulations will not allow for a marked difference between new payment methods and traditional routed card payments. Without the physical presentation of a card in transactions via phones, Apple Pay, and stickers (CBA MasterCard and ANZ Visa), there is no way for a merchant to determine what form of tender is being presented. This means the merchant has no understanding of the cost of the transaction, removing the ability of the merchant to determine the level of surcharge should they choose to recover the transaction cost. The latest eftpos and PayPal deal demonstrates a case where the merchant does not know if there is an extra cost on the PayPal transaction through eftpos. A merchant must know and understand these costs prior to the sale being transacted.
- The ARA believes that all payment systems need to be subject to the same regulatory obligations. Whilst we applaud that the RBA will regulate American Express co-branded cards, the next step for the RBA and government needs to be the inclusion of AMEX, Diners, and China Union Pay under the same regulations as other currently regulated card systems, such as eftpos, MasterCard and Visa.
- The introduction of high interchange premium cards has significantly increased costs to merchants, most of whom are not in a position to negotiate lower interchange fees directly with the card schemes. This difference in purchasing power reduces the retailer's ability to compete with dominant retailers who are on a Strategic Merchant Rate. We welcome the RBA proposals on the capping of cards at 80 basis points, however there is a concern that premium (or high value) cards could sit at the 80 basis point rate and therefore our original proposal of a cap and counter would be more appropriate. As an example, no rate could be higher than say 80 basis points and no rate lower than 40 basis points,

unless the scheme was offering a new payment method. To encourage uptake of a new payment method, a reduced interchange fee should be allowed for a set period of time.

- ARA members, including larger merchants, need to have a clearer understanding through disclosure of how to access the Strategic Merchant Rate.
- The RBA should further explore the option of merchants having the choice of routing for all payment transactions including, but not limited to American Express transactions and scheme debit transactions.
- In principle the ARA believes surcharging is not conducive to a good customer experience, with the majority of ARA retailers avoiding the practice on lower cost regulated cards. The ARA believes that permitting merchant surcharging on credit and debit cards has been pro-competitive and as such has been a positive regulatory intervention in relation to non-regulated payment systems. Where regulated systems are in relatively secure payment environments there is little charge back to the merchant. However, in less secure web based environments there is still a case for surcharging. An ability should remain to surcharge non-regulated payment systems. The ARA also recognises the costs of cash and the regulated systems can be competitive with those cash costs.
- The ARA is especially satisfied to see that our position on American Express companion cards has been heeded. The proposed modifications to credit card interchange standards, whereby co-branded American Express cards are subject to the same interchange fee regulation as MasterCard and Visa, is perfectly in line with what the ARA has been advocating. In addition, we appreciate the undertaking to not allow other card systems to game the payment system as has occurred in this instance.

THE SUBMISSION

The ARA agrees on the following guiding principles for the future regulation of the Australian Payments System as an alternative to the options which have been presented to the RBA. We believe the majority of retailers and major regulated payment systems would be supportive of these principles.

Surcharging

- Principles based surcharging, where there is no surcharging allowed for low cost systems (eftpos and scheme debit) assuming that the RBA will require acquiring banks to separate debit and credit and not allow blending of these rates by the acquiring banks.. Businesses are permitted to apply a surcharge which reflects the cost of acceptance for credit.
- We broadly support the RBA proposal; however, as noted in our submission to the Competition and Consumer Amendment (Payment Surcharges) Bill 2015 there does need to be leeway given to inadvertent errors, particularly made during the transition period and by small retailers.
- To ensure that there is no cross subsidisation, blended surcharging should not be permitted.

Level Playing Field

- Any regulation must apply equally to all payments systems, including American Express, Diners, Union Pay, JCB, PayPal, Apple Pay, Google etc.
- A threshold set at no greater than 1.5% of retail payment transactions market share before regulation is applied
- Regulation to capture new forms of payment systems under this model as they emerge
- It is important for both the RBA and Government to be able to quickly act on new technology and game changers in the payments sector with an appropriate mechanism set up allowing this process

- To rectify the lacking transparency of Pay Wave, the acquirer should be forced to ask how the transaction is to be routed once a payment moves to tap and go.. If a customer uses a mobile device to make an eftpos debit transaction, the transaction is currently routed via the Visa or MasterCard scheme, therefore the retailer pays the percentage on the transaction rather than the click fee per transaction. For example, a retailer pays 79C for the transaction on a sale of \$100, assuming the merchant Interchange fee is 79 basis point (ARA published fee). However, if the transaction could be routed via the eftpos network in the ARA published rate of 17c per transaction, the differential cost is 62 cents. Multiplying this by 100 sales per day results in a cost \$62 per day, or \$434 per week, equating to \$22,568 PA. If the same retailer were to have 10 stores, this equates to \$225,680 PA. This is not acceptable.

Interchange

- A significant and meaningful reduction in the disparity which currently exists between large and small merchants, therefore we submit our proposal around transparency on strategic merchant rate settings
- A defined range of interchange rates applied to industries and products
- The reset to ensure regular compliance with a weighted average of 50 basis points for interchange rates. There have been enquiries as to the cost of quarterly compliance being excessive and passed back to merchants, leading to a question for the RBA of whether a less regular reset would still achieve their goal while reducing costs?
- Allowance of 'special rates' for a defined period of time, to allow schemes to incentivise new technologies and innovations in the market (to recognise that large merchants can assist with early adoption through leverage of their scale)
- We support the proposals to separate debit and credit rates in the provision of pricing to all merchants

Timing

- Targeted commencement of second half of 2016 calendar year for all items

We support the view that the regulation of credit card and debit card payment schemes is required for competition to lead to more efficient outcomes. However, there are issues with the current regulatory framework that are driving up costs for retailers that need to be addressed and the further issues raised need to have an appropriate mechanism to address them.

Kind regards,



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Please note: In 2004 Russell Zimmerman was appointed as Chair of the Australian Merchant Payments System (AMPF). The AMPF works with the major retailers including Coles, Woolworths, Australia Post, BP and Caltex, Reject Shop and the 5,500 members of ARA. The views expressed in this submission would be in line with the majority of our members however some members may not support all the positions expressed in this submission.