



Secretariat: PO Box 576
Crows Nest NSW 1585
(02) 9431 8646
Our advocacy team is based in
Canberra
Email: info@cosboa.org.au
www.cosboa.org.au

9 July 2021

Head of Payments Policy
Department Reserve Bank of Australia
GPO Box 3947 Sydney NSW 2001

Via Email pysubmissions@rba.gov.au

RE Review of Retail Payments Regulation,

Thank you for the opportunity to comment on the Australian Payment's System Review Consultation **Paper** published in May 2021.

Our belief, built on collaboration with members of the Council of Small Business Organisations Australia (COSBOA) who represent approximately 1.3 million businesses in Australia, is that the Australian Payments system is a critical element of an efficient business economy.

Small Business are not able to understand nor significantly control the fees imposed upon them by a complex "system" not of their own design. This complexity and a lack of transparency in fee structures has created an environment of higher than necessary costs which ultimately impact small business owners and in turn, their customers.

Accordingly, Australian small businesses trust that the regulator will ensure that the retail payments market is fair and equitable, while also maintaining a competitive tension that places downward pressure on future price rises.

The concept of Least Cost Routing (LCR) provides such a mechanism for fairness and competitive tension, yet the implementation of this mechanism has been problematic with disingenuous forms introduced by the big banks over recent years. A continued lack of transparency and complicated 'switching processes' where the small business must rely on advice from the very actor that has an interest in keeping merchant fee costs high (i.e., their Bank), has resulted in stifled competition and an inability to adopt LCR (i.e., less than 8% of Australian businesses currently have access to LCR).

Small Business and therefore the Australian Economy will benefit from transparent fees, and an competitive environment whereby alternate systems and alternate cost structures can be evaluated and implemented.

We acknowledge the work, consideration and complexity that is addressed in the Paper. Our response to the specific issues is attached.

Yours sincerely,

Alexi Boyd
Interim CEO
Council of Small Business Organisations Australia (COSBOA)



ABOUT COSBOA The Council of Small Business Organisations Australia (COSBOA) is the national peak body representing the interests of small business. Collectively, COSBOA's members represent an estimated 1.3 million of the 2.5 million small and family businesses that operate in Australia.

COSBOA is the big voice for small businesses people since 1977. As a collaboration of peak organisations, we promote small business with independent, tenacious advocacy to powerful decision-makers to get a better deal for millions of small businesses people and a better economy for all Australian people.

Small and medium sized enterprises (SMEs) are major contributors to the Australian economy. SMEs employ 68% of Australia's workforce. In GDP terms SMEs together contribute 56% of value added. For this reason, small and medium businesses will be the key partners with Government in re-building the Australian economy.

Policy Statement - COSBOA supports innovative financial products that sit within the regulatory system, are transparent and competitive with their merchant fees and charges, which can be passed on the beneficiary of the service.

COSBOA Response

Review of Retail Payment's Regulation Paper

Summary

The ability of competition for small business transactions are limited and actively stifled. Small business has limited capacity to fight the big business interests in the payments systems evidenced by the high fees they pay. Regulations and regulators exist to protect the ability for competition to exist.

Solutions

- A timeframe to implement Least Cost Routing across all payment types, including online and mobile and digital wallets.
- Keeping the Multi Network Debit Cards "Rails" available for all cards, irrespective of the size of the issuing bank, especially for LCR
- Creating an environment for competitive innovation
- A reduction in complexity and an increase in transparency of fees.
- A real reduction in the cost of using the banking and payments systems for small business
- Ongoing monitoring of solutions offered to reduce small business banking costs
- A small business voice in retail payments regulation policy
- A proportional increase in enforcement powers for the regulator to keep pace with the changing landscape of payment systems
- A preference for multiple players competing for banking business
- Merchants must be allowed to on-charge fees, including BNPL

Summary COSBOA Position

Dual-network debit cards

Maintain current 90% level of debit cards available on multiple networks.

Least-cost routing (LCR)

Regulate rather than “expectulate” i.e. set a mandatory time-frame and take up (rather than just offering) for LCR, by default not opt in.

Mandate LCR in digital, mobile wallets and future emerging financial innovative products.

Interchange Fees

A lower cents-based interchange cap for SNDC transactions than for DNDC transactions.

Lower all caps for small businesses, so they can compete fairly with big business.

Further review and analysis a system of ad-valorem fees.

Extend interchange regulation to foreign-issued cards and reduce fees.

Tying Conduct

Explicitly prohibit schemes from engaging in ‘tying conduct’ involving their debit and credit card or other banking products to ensure transparency and visibility on fees across all products.

Scheme Fees, Interchange fees, Acquiring fees

Meaningful & transparent disclosure of scheme fees with reporting to the RBA which may be published

Surcharging

Allow merchants the choice to surcharge all fees, including BNPL and other emerging innovative financial products.

Consumer Data Rights

COSBOA has long argued for the extension of Consumer Data Rights to the fees paid by merchants and would support the RBA, ACCC in furthering this initiative.

Details

Dual Network Debit Cards Issuance

Issue 3.1.2

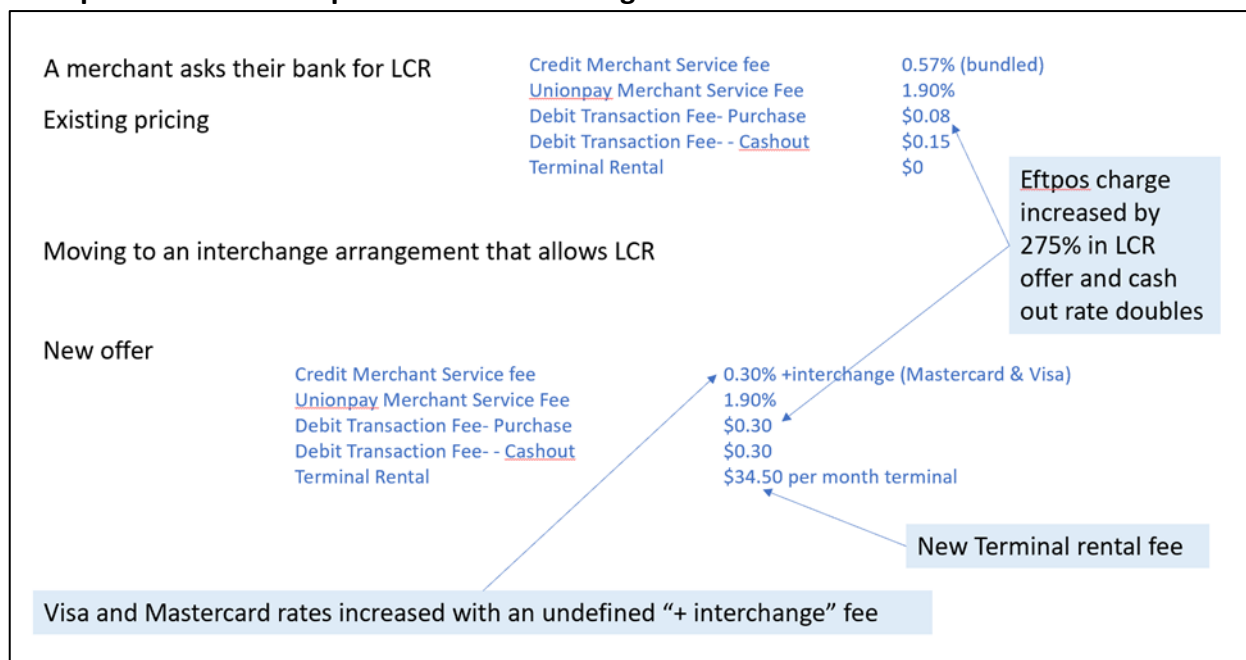
COSBOA Supports Option 3. ¹

The “expectation” major banks keep offering Dual network, under Option2, is a wait and see approach and given small business has been waiting for several years, we need a more active intervention.

As noted in the Paper, the US adopted the Durbin Amendment in 2010 to address very similar issues when compared to the Australian market.

COSBOA has consistently argued that the information provided by banks to small businesses in relation to LCR is confusing, difficult to understand and frequently buried in onerous documents or website detail. When LCR is recognised as a more economical option and then requested by small business people, the subsequent price review by the banking provider, often results in other banking fees increasing, to the same or greater than the saving made in adopting LCR. A whole industry has sprung up to navigate the complexity of fees and charges, prices, and bundles. These services deliver on average between 20 – 40% saving for small business. However, these are a fee for service, a further disincentive to change.

Example of Merchant Experience when seeking LCR



While weighted average interchange rates for VISA and Mastercard debit have declined in the last two years², this “weighted average” minimizes the impact of high fees being borne by small business. There is now, emerging data on small business fees and much anecdotal

¹ Pg12 The Paper (refers to the Review of Retail Payments Regulation Consultation Paper May 2021)

² Pg8 The Paper

evidence that small business pays a disproportionately higher rate than the 8 per cent benchmark.

The claim that LCR is available widely, also ignores that some LCR does not utilise “dynamic³” routing, and again this appears to impact small business most. The roll out and implementation of LCR appears to be no more than, information provided under various names LCR or Merchant Cost Routing (MCR) on bank websites.

The onus is on the merchant to enable and navigate its implementation. This is not implementation; it is information and lip service at best. Small businesspeople are generally frugal and careful with their cashflow and their time. Often, they do not have the time to find, nor the resources to ask for this benefit. We have seen in other sectors, like electricity pricing, that the providers must make the lowest cost option available. The same should be applied to allow LCR.

We note the case for SNDC being less expensive to administer and therefore more attractive to innovative new entrants and product offerings. We do not accept that many new SNDC would be less expensive to operate and there is a considerable down side, like tying behaviour, reduced choice and competition, and no ability to offer LCR for small business people.

The “expectation⁴” approach, based on behaviour of the banks, is past it is use-by-date. Banks rely on complexity and confusion with regards to fees to make the task of checking for less expensive options so complex that it is difficult for the small business person to compare products and make an informed decision.

We support the lower cents-based caps on interchange fees for SNDC’s being applied, at least to small businesses with a turnover <\$100M.

We propose SNDC be limited so that DNDC’s offering does not decline below the current 90% of debit cards issued in Australia. We ask how this aligns with the RBA’s of setting a threshold that would capture 88% of household deposits? Our position would be to maintain the 90% level. We note that anything that threatens the ability of LCR to be a viable offering should not be considered, therefore it may be necessary to increase the proposed threshold.

COSBOA notes the RBA’s “preliminary assessment” favouring Option 2, does not consider the impact on small business people. Only on banks. COSBOA maintains that “expectations” to enable LCR have not been met and that further “expectations” regarding issuing DNDC will be met with the same lack of enthusiasm. There is a place for “self-regulation”, however, it must be based on evidence of action. Small business has been subjected to a lack of restraint in fees and charges for many years. There is good evidence that regulation

³ Pg 9 The Paper

⁴ Pg 13 The Paper

is required. If the RBA is not willing to regulate over the entire payments system, then we seek regulation over the payments system so that small business are fairly treated .

COSBOA's position is that regulatory action is required to limit investment by banks in a direction that will further erode the ability for competition to exist, rather they should encourage fairer merchant fees for small business people.

SNDC offerings, in reducing market share to EFTPOS, also must be considered as seriously undermining the ability of competition continuing through LCR. It is critical therefore, that LCR is available through all online payment types, including phone, mobile wallets and whatever else will be created in the future.

There is also an impact to small business customers, including a removal of the Point of Sale cash out facility. When functions such as these are removed, the small business owner can experience a downturn in foot traffic and sales overall. This is particularly the case in regional communities where banks and ATM facilities are absent, and the small business is the only option for cash out.

COSBOA submits that the current environment leaves customers unaware of merchant fees due to a lack of transparency and if information is provided, it is complex. Therefore, investment of time to evaluate costs and options in a complex environment results in little ability to maintain interest in the issue. We submit that transactions should be LCR by default with a business able to opt out if they assess a valid reason to do so.

[Potential tying conduct by the international schemes](#)

[Issue 3.1.3](#)

COSBOA Supports Option 2.

Explicitly prohibit schemes from engaging in 'tying conduct' involving their debit and credit card products.

COSBOA supports the principles proposed while remaining wary of the bank's appetite for compliance to these standards and principles, given the recent court enforced orders around VISA brought by ACCC. For example, Principle 1(3ⁱ), relies on the bank doing what it said and a merchant being aware of their rights, both are tenuous.

We acknowledge and welcome these Principles, especially #2. These would move towards more transparency around fees if they were applied. However, if the banks implement these principles, like they moved on introducing LCR, then there is a considerable lag and lack of enthusiasm, while small businesspeople continue to pay unfair and unreasonable fees. We note the annual compliance certification process, to ensure implementation. If this is like the bank claiming 95% of merchants have been "offered" LCR, then we are back to playing games of semantics with statistics and no progress.

There should be some independent verification of any annual compliance requirements.

Least-cost routing

Issue 3.1.4

COSBOA Supports Option 3.

Regulate rather than “expectulate.”

Set a mandatory timeframe and take up (rather than offering) for LCR by default.

COSBOA would contest the claim of “considerable progress in the provision of LCR” by the payments industry. Most small business people have little or no awareness of LCR.

The wait and see approach, the “let the market decide” being offered by RBA is hurting small businesses. This impact is not visible in “weighted averages” and the statistics that show a downward trend of merchant’s costs across the sector. The market cannot decide due to lack of information and lack of transparency which leads to an inability to negotiate fees.

It is unreasonable to expect small business to pay high fees because payment systems providers are struggling with legacy systems and complexity.⁵ It is clearly the payment system providers responsibility to ensure their business model meets current competitive requirements and those payment options which have not yet entered the market. With fees so high, small business have seen more high-priced services attracted to the sector, like Buy Now Pay Later. This is clearly a new fin tech initiative that provides no cost relief ⁶to small businesses and counters the argument that new fin tech offerings will provide competition and lower fees for merchants.

We would strongly argue that LCR must be offered across all payment environments, as it is overseas, including online. At present there are a growing list of devices (such as CBA’s “Albert” terminal & Apple Wallet) which do not offer LCR as an option.

Sensible intervention which captures all current and future devices and card-not-present options prior to their introduction, especially in setting standards and principles for LCR online, will ensure all participants will adopt the standard. The principles in Box B⁷ appear sensible provided merchants can continue to surcharge fees.

We agree there is a strong case for RBA leadership on how LCR should operate online. It is unclear as to why the RBA sees Option 3 as unnecessary, especially considering slow industry progress. We disagree with the RBA’s view that LCR is being offered and good progress has been made.

We argue early intervention will help small business and banks make good choices, create a competitive environment, providing certainty and aid with policy direction. Again, we stress,

⁵ Pg16 The Paper

⁶ Pg 18 – 19 The Paper

⁷ Pg. 18-19 The Paper

self-regulation only works when in action, and there's good evidence that it has not been a priority.

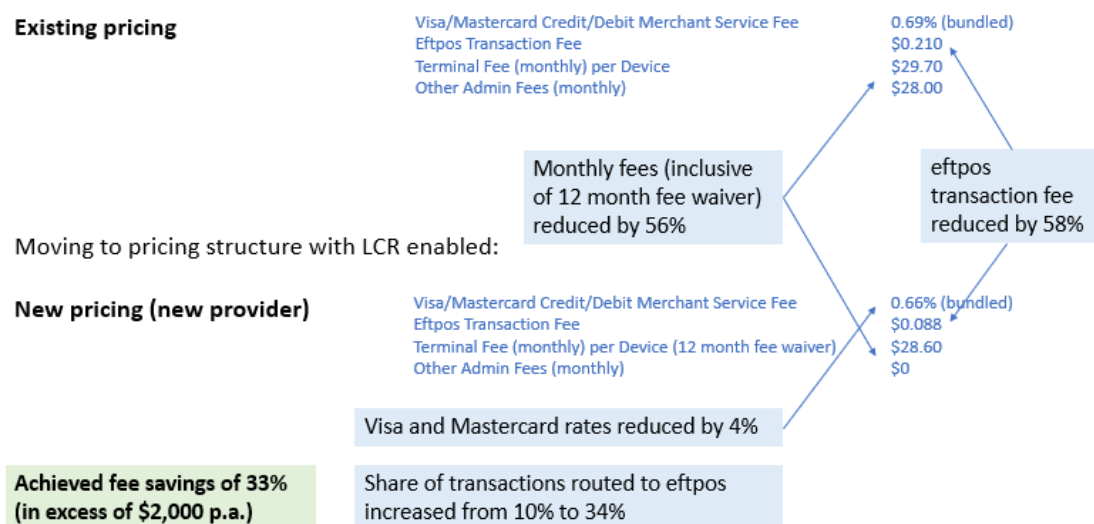
LCR Case Study – Fashion Retailer

• Merchant Details

- Fashion retailer
- Metro location
- \$1 million+ annual sales
- Staff
 - 2 full-time staff
 - 4 casual staff
 - 1 manager
 - 2 directors (one non-executive)

• Background

- Merchant approached their payment service provider (a major bank) to enable LCR, but were advised that the pricing would need to be restructured and total fees would increase.
- Existing provider could not support integration with the merchant's POS system due to technical issues.
- Merchant engaged an independent consultant to source an alternative pricing proposal with LCR enabled.
- Pricing proposal sourced by the independent consultant from another bank (leveraging LCR) achieved a **33% fee saving (in excess of \$2,000 p.a.)** with EFTPOS terminals integrated with the merchant's POS system.



Interchange Fees

Issue 3.2

COSBOA contends that the situation of small business merchants is not being considered and factual evidence is lacking for some statements, like “only a relatively small proportion of card payments incur a surcharge, it may be the case that card acceptance costs are now viewed as ‘sufficiently low’ by most merchants.”⁸ A lack of surcharging does not indicate acceptance. It simply demonstrates the real-world pressures on small business people who exist in a competitive market where their ability to increase prices by passing on costs, like surcharges, will impact their sales and profitability as customers move away from higher priced goods and services.

⁸ Pg.24 The Paper

On interchange fees, there's good evidence⁹ that small business is paying unfair and burdensome fees, lacking the strategic volumes to negotiate better terms. In this environment, there is no competition, and thus the regulator's role must be to intervene. While the Board acknowledges this inequity, i.e., small business paying 15 times¹⁰ the interchange cost of larger "strategic" merchants, it sees no need for significant reform. We seek for the RBA to regulate the system to provide for a level and equitable market. Due to the lack of power of the small business they are unable to compete or arrange the same fees as large business.

COSBOA hold that fees for small businesses need to be proportional and there needs to be a greater assessment of the options, and action to give relief to small businesses on Interchange fees. COSBOA supports further review and analysis of a system of ad-valorem fees.

Fees are disproportionately highest for small businesses but they are not in a position to negotiate as an individual business.

[Interchange Fees Reform Options](#)

[Issue 3.2.3](#)

COSBOA Supports Option 2 and 3

We would like to see a reduction in Interchange fees (Option2) followed by analysis of a system that sets fees in Ad Valorem terms (Option 3), but avoids some of the issues encountered in other countries that diluted the intention, being to reduce the fee burden and complexity on small businesspeople.

We acknowledge the Board's concerns and their understanding that the ability to pass on fees in surcharges, has poor application in the real world. "The Board is concerned that these actions are particularly disadvantageous for smaller merchants which do not benefit from strategic rates and that they can result in unreasonably high payment costs for some low-value debit transactions."¹¹

[High interchange fees on transactions on foreign-issued cards](#)

COSBOA Supports Option 2

Extend interchange regulation to foreign-issued cards

"The Board is seeking feedback on the proposed caps of 10 cents for DNDCs (and all prepaid cards) and 6 cents for SNDCs." ¹² COSBOA's initial feedback is that a reduction is encouraging. Consideration of lower caps for smaller businesses would also alleviate the disproportionality of fees paid by small businesspeople.

⁹ Pg.22 The Paper

¹⁰ pg.22 The Paper

¹¹ Pg 27 The Paper

¹² Pg. 28 The Paper 3.2.5

[Scheme Fees](#)

[Issue 3.3](#)

[Reform Options 3.3.2](#)

COSBOA Supports Option 3

COSBOA has actively lobbied for increased transparency and competition in scheme fees with small success. For this reason, we would advocate for strong action to induce change.

COSBOA has already seen behaviour change resulting from the Payment's Time legislation and regulation. Years of consultation, promises, Memorandums of Understanding and Statements of Principles, even threats achieved very little for small business payment times. New laws¹³ will see payment time performance reported publicly and anecdotal evidence is that this is already impacting how big business deals with small business.

For this reason, in similar circumstances, we see Option 3 as necessary and urgent.

The argument that the fees are so complex the banks do not understand them, is even more reason to encourage change.¹⁴ Complexity stifles competition and reduces transparency. Creating reporting methodologies, to keep the system useful and fit for purpose would be required. Any perceived perverse impacts of publishing prices should be handled when and if such an issue emerges.

[Surcharging Issue 3.4](#)

[Buy Now Pay Later](#)

COSBOA Supports surcharging being available to Merchants on Buy Now Pay Later transactions.

BNPL is a relatively new entry to the sector and has shown significant growth and take up by consumers. COSBOA has argued it makes sense to set the ground rules from the start for this new fin tech credit offering. Merchants understand the benefits of BNPL for their customers, as this benefit is being funded by the merchant. Often, they don't have a good understanding of the cost impacts on their margins.

Merchants COSBOA surveyed in December 2020 where asked "How much does BNPL cost you?" They provided a wide variety of answers and levels of information and understanding. These answers did not align with the RBA's 4.4% weighted average. Without understanding their margins accurately, small business is vulnerable and may be making a loss on the sale that is processed through BNPL channels.

¹³ [Payments Times Reporting Act 2020](#)

¹⁴ Pg 30 The Paper

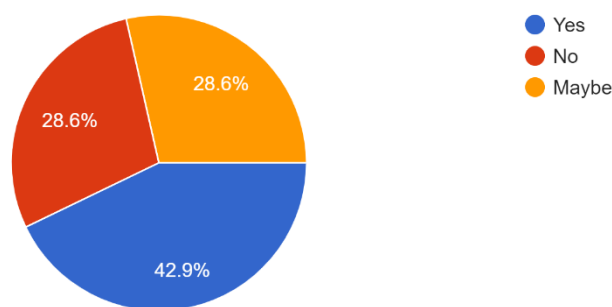
EXAMPLE - COSBOA Survey responses “How much does BNPL cost you?”

Afterpay is 5% plus 30cents + gst per transaction
NA
6%
4% per transaction
Too much my fees vary between providers
More than the cc fees and merchant fees from my bank
6% of the transaction
4%
A fair bit per year with the interest involved I think sometimes I wonder if we shouldn't have it
Unsure
Afterpay 5%, zippay 4.5% & salon pay \$39 a month
Not much as we have a very small percentage of users
Don't know, not much as only 1 client uses it
About 4%
6% of sales value

The BNPL Providers say their service increases sales, the value of the sale and promotes the business. In December 2020 COSBOA surveyed some merchants about the impact of BNPL on sales. We asked ...

Have your sales increased as a direct consequence of offering BNPL?

14 responses



Over 50% responded with a no or a maybe. This does not correlate with BNPL claims that the service creates greater volume and value of sales. As with surcharging on much lower credit card fees, small business merchants must have the CHOICE to surcharge higher BNPL fees.

BNPL argues the merchant can choose not to offer BNPL if the fees are too high. This ignores how compelling “free” credit is to a consumer. Merchants are in a competitive environment. They are being offered a choice between a rock and a hard place. Miss sales or be slugged?

The solution is to allow choice to surcharge, in the same way that the RBA regulated for surcharging on credit cards.

Waiting for the threshold to be reach a certain point, is walking away from the significant fees being charged to small businesses. Of the \$398 revenue reported by BNPL in 2018-19, about \$279M¹⁵ or more than 70% comes from merchant fees. Despite merchant fees being the major BNPL revenue source, there is an incongruent focus on the consumer risk by ASIC and very little consideration of the merchant who pays most of this new revenue source. The RBA appears to have the same view.

While the amounts may not be significant in RBA terms, it is very significant in small business terms, often eating the entire profit margin on a low margin sale. The demand for interest free money is understandable, however it is not “free”, and merchants must be able to make decisions about where they wish to allocate this cost, back with the customer or absorbed in their margins.

COSBOA urges the RBA to regulate the ability for business to surcharge fees on services like BNPL and other products that will emerge. The RBA has done this before, and should act now, while this innovative product is still emerging. The RBA is then setting clear policy direction for BNPL and others and protecting small business with the ability to choose to surcharge, as it does with other credit products.

In terms of public interest, the small business sector employs almost half the Australian workforce. BNPL fees are disproportionately high for small businesses who cannot negotiate on volume nor value and are vulnerable to gouging due to “FOMOS,” fear of missing out on a sale. The small business sector holds immense public interest value, and this interest has not been considered by the RBA. By enacting transparency of surcharging, the RBA avoids its involvement with thresholds, criteria’s, judgements, triggers, qualitative factors, and the difficulties of applying, weighting, and calibrating other such economic non-realities.

One of the issues COSBOA sees, is that many of these measures the RBA proposes, ignore the impact of the fees on small business people. They are an economic response rather than real-world regulation.

For example, Table 2¹⁶ quotes merchant fees at 4.4% as a weighted average. This completely ignores what small businesses are paying. Without volumes or values to negotiate, they pay considerably higher rates, from 5 – 6% plus a transaction fee. The data is used by the RBA is provided by the BNPL sector, which has a vested interest in promoting its interests and minimising the negative impact on small business.

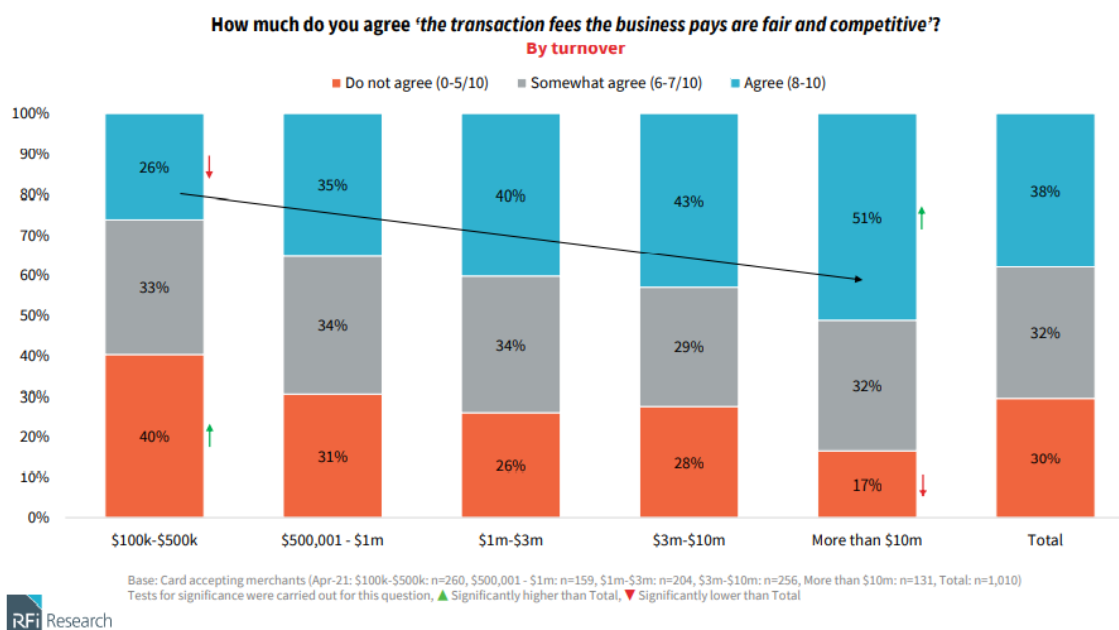
¹⁵ Pg 7 Rep672 ASIC [Review of buy now pay later arrangements](#)

¹⁶ Pag 39 The Paper

When the fees are correlated to turnover, an entirely different situation emerges. One where the smaller you are, the more you pay. The impact is a diminished competitive environment and viability for small business.

AUSTRALIAN MERCHANT ACQUIRING PROGRAM

Positive perception of fees increases significantly with turnover



The banking industry has hired consultants (RFI Group) to survey the industry¹⁷ and merchants. They looked at bank transaction fees, being;

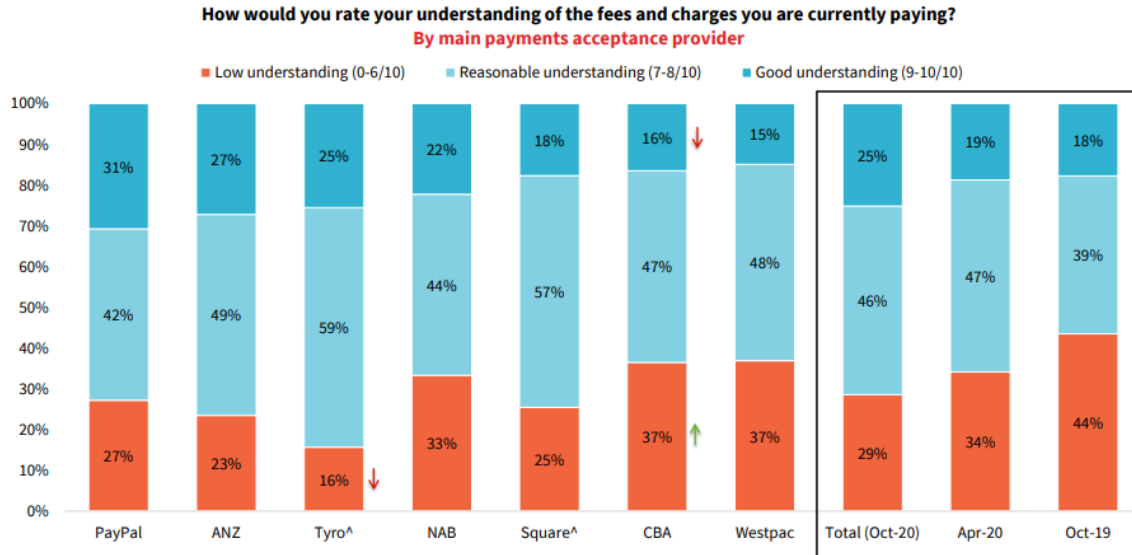
1. well understood
2. fair and competitive

The survey revealed 75% of respondents rated their understanding of fees and charges as “reasonable to low” which is extremely concerning given the significance of these costs to retailers – and a reflection of the complex nature of same. This is particularly odious when turnover is related to fees and charges.

¹⁷ RFI Research Australian Merchant Acquiring Program Oct 2020

Do merchants understand their providers charges?

Merchant perception of their own understanding of fees and charges paid has improved over the last 12 months



Base: Card accepting merchants (Oct-19: n=993, Apr-20: n=1,004, Oct-20: ANZ: n=147, CBA: n=249, NAB: n=155, PayPal[^]: n=114, Regionals: n=173, Square[^]: n=51, Tyro[^]: n=51, Westpac: n=98, Total: n=1,007)
 Note: [^] aggregated data from Oct-20 and Apr-20

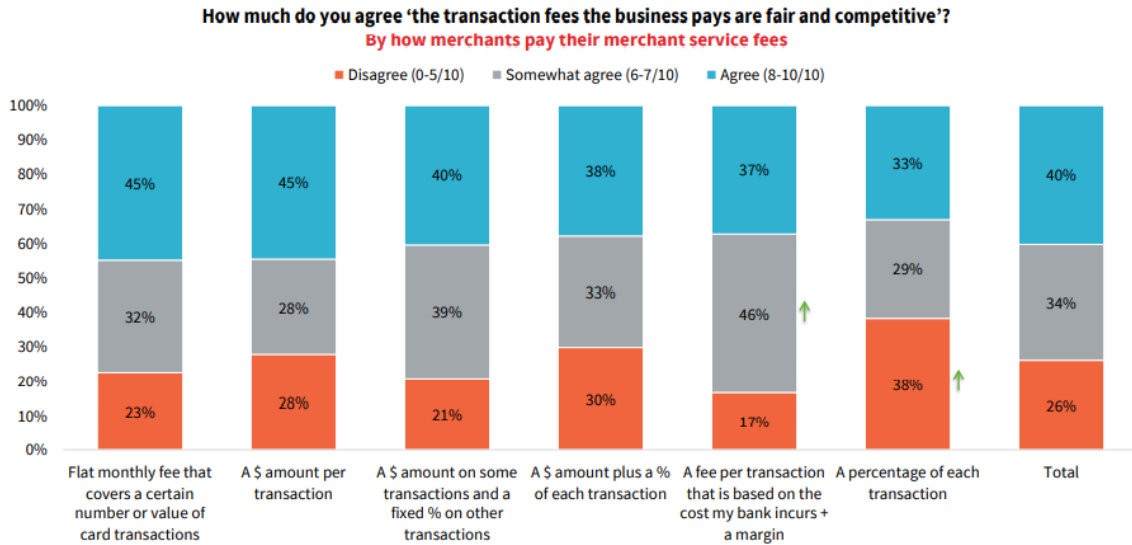


Tests for significance were carried out for this question, ↑ Significantly higher than Total, ↓ Significantly lower than Total

40% said the fees were fair and competitive. 200 of the total 1007 surveyed merchants reported revenue under \$100K.

Are fees fair and competitive?

Merchants who think they pay a flat monthly fee that covers a number/ value of transactions are most likely to agree their fees are fair and competitive



Base: Card accepting merchants (Oct-20: Flat monthly fee that covers a certain number or value of card transactions: n=256, A \$ amount per transaction. Example: n=148, A percentage of each transaction. Example: n=164, A \$ amount on some transactions and a fixed % on other transactions. Example: n=139, A \$ amount plus a % of each transaction. Example: n=138, A fee per transaction that is based on the cost my bank incurs + a margin; n=132)

Tests for significance were carried out for this question, ↑ Significantly higher than Total, ↓ Significantly lower than Total

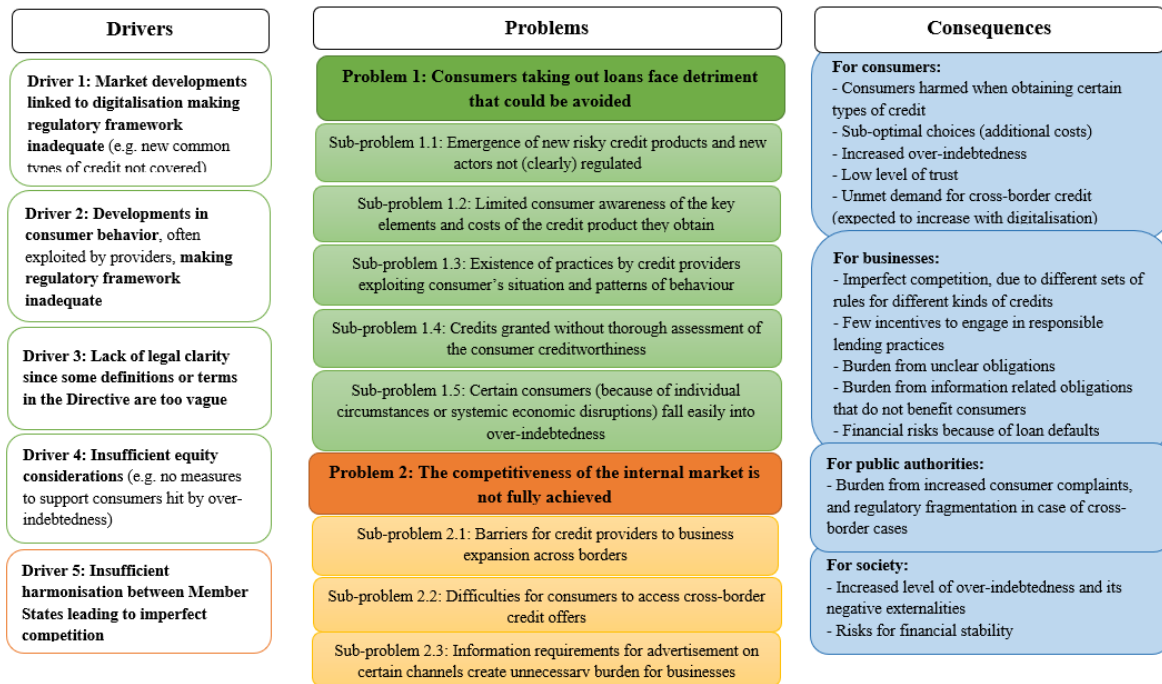
COSBOA recognises the need for independent analysis, allowing small business people to decide what is fair and reasonable is simple, effective, and required now. Surcharging has been long accepted on credit cards and should be applied to other financial facilities and instruments that emerge from time to time.

The European Commission has already regulated BNPL. From 1 June 2021 it is addressing the issues around BNPL credit risks and revising EU rules on consumer credit¹⁸. While consumer risk is an issue, COSBOA views the impact on merchants as much more serious.

The drivers, problems, and consequences of this type of credit are well known and cut across many sectors of society. COSBOA argues early intervention and consideration of the impact on small businesses must be weighed as part of the public interests.

¹⁸ [Consumer Protection Revision of the Consumer Credit Directive European Commission 1 June 2021](#)

Figure 1 Problem tree



19

Competition in Card Acquiring Issue 3.5

COSBOA Supports Application of CDR to merchant bank fees

The relationships, which exist between merchants, cardholders, retailers, acquirers, and issuers, are generally referred to as '**four party card schemes**'.

Interchange fees, Scheme fees and Acquiring fees all are disproportionately high for small businesses. These fees are bundled, further eroding transparency, competition and understanding. The RBA reviewed these fees in 2015-16²⁰ and regulated in 2018. However, this issue has been difficult to regulate and continues to be contentious.

The Board acknowledges that small business pays double the fees. For small business, the ability to navigate Card Acquiring fees is difficult. Simple fees are attractive even when more expensive as small businesspeople balance time and money priorities. The complexity means it's difficult to make a real assessment, so inertia results. This is not a competitive environment. This is anti-competitive by complexity.

COSBOA has long argued for the extension of Consumer Data Rights to the fees paid by merchants and would support the RBA, ACCC in furthering this initiative.

¹⁹ Pg 7 European Commission Impact Assessment Report Directive of the European Parliament and of the Council on Consumer Credits. 30 June 2021

²⁰ [The Operation of the Interchange Standards: Conclusions Paper](#)

[Net Compensation Regulation](#)

[Issue 3.6](#)

COSBOA Supports further review of the issues.

The complexity of assessing fee structures is well documented in the net compensation regulations. COSBOA has no comment on this issue.

[Other Issues 3.7](#)

[Digital wallets and mobile payments](#)

COSBOA Supports further review of the issues.

Small businesses are at the coal face of digital wallets and mobile payments and furthest from having any say or control over the fees they pay on these new devices as the mega corporates slug it out in the stratosphere of billion-dollar technology deals. This is rapidly changing, but legislation and regulation are not keeping pace.

COSBOA has argued for LCR to be available whatever payment method is used now and into the future. There must be choice for competition to exist. It is the regulator's role to ensure that competition can exist.

[Issue 4 Summary and Next Steps](#)

Changes to card regulations

- replacing the current cents-based debit (and prepaid) interchange fee cap (15 cents per transaction) with different, and lower, caps for DNDCs (10 cents) and SNDCs (6 cents)
COSBOA Agrees.

- requiring schemes to publish the interchange fees for domestic transactions on foreign-issued cards on their websites

COSBOA Agrees.

We support the lower cents-based caps on interchange fees for DNDC & SNDC's being applied, at least to small businesses with a turnover <\$100M to even out the unfair advantage currently being enjoyed by big business.

- formalising recent guidance about when and how new issuers should begin certifying compliance with the net compensation provisions of Standards No. 1 and 2 (and including a minor technical revision to the definition of 'Core Service')

Further review required

- revoking the designation of the American Express Companion Card system Other policy proposals

No view

- setting an explicit expectation that: – the major banks will continue to issue DNDCs, with two card schemes to be provisioned in all form factors, including mobile wallets, offered by the issuer (where the functionality is supported by the scheme) – all acquirers and payment facilitators will offer, and promote, LCR functionality to merchants in the device-present environment – the industry would follow a set of principles outlined by the Bank regarding the implementation of LCR in the device-not-present environment.

COSBOA disagrees

COSBOA Recommends Option 3

We propose SNDC be limited so that DNDC's offering does not decline below the current 90% of debit cards issued in Australia. We ask how this aligns with the RBA's of setting a threshold that would capture 88% of household deposits? Our position would be to maintain the 90% level. We note that anything that threatens the ability of LCR to be a viable offering should not be considered, therefore it may be necessary to increase the proposed threshold.

COSBOA's position is that regulatory action is required, to limit investment by banks in a direction that will further erode the ability for competition to exist and for fairer merchant fees for small business people.

- requiring schemes to provide the Bank with access to their fee schedules and all scheme rules (including, but not limited to, rules related to fees), and to notify the Bank promptly of any changes to scheme fees and rules

COSBOA Agrees.

- collecting quarterly data from card schemes on scheme fee revenue (net of rebates), as well as information on the top 20 fees by value, and annual data from larger issuers and acquirers on scheme fee payments (net of rebates)

COSBOA Agrees.

- collecting merchant-level data on payment costs from large acquirers each year and using it to publish pricing information and other educational material for merchants (with acquirers expected to notify merchants at least once each year where to find the published material)

COSBOA Agrees.

- exploring with Treasury and the ACCC the possibility of extending the CDR to acquiring services provided to small businesses

COSBOA Agrees.

[Draft Standards](#)

[Issue 1.1](#)

Standard No.1 The Setting of Interchange Fees in the Designated Credit Card Schemes and Net Payments to Issuers

COSBOA Agrees.

Draft Standard No. 2: The Setting of Interchange Fees in the Designated Debit and Prepaid Card Schemes and Net Payments to Issuers

COSBOA Agrees.

Draft Standard No. 3: Scheme Rules Relating to Merchant Pricing for Credit, Debit and Prepaid Card Transactions

COSBOA Agrees.

4.2 Issues for Consultation and Next Steps

1. Is the proposed approach appropriate? Does it meet the public interest?
2. Do the draft standards achieve what is intended?
3. Are there factors that have not been properly addressed or considered, either in the general approach or the specific drafting?

COSBOA has provided this information in the body of this attachment above.

4. What impact will the proposed policy changes have on your regulatory compliance costs? (Please provide dollar estimates.) Are there alternatives that would achieve the policy objectives at lower cost?

Not applicable to COSBOA.

5. How much time should be allowed between any final decisions being made on the interchange standards and the effective date of any new or revised standards? What factors are relevant to the length of this implementation period?

Not applicable to COSBOA.

ⁱ Page 15 The Paper