Dr. Tony Richards
Head of Payments Policy Department
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9 July 2021

Dear Dr. Richards

Re: Review of Retail Payments Regulation: Consultation Paper, May 2021

Macquarie Group Limited (Macquarie) appreciates the opportunity to respond to the above Consultation Paper issued by the Reserve Bank of Australia (RBA).

Background

Macquarie has an Authorised Deposit-taking Institution (ADI), Macquarie Bank Limited, and, at the subsidiary level, also holds an Australian Financial Services Licence and Australian Credit Licence. We operate a retail banking and financial services business, providing a range of personal banking, wealth management, business banking and vehicle finance products and services.

Within our personal banking business, we offer a range of banking products including transaction and savings accounts, debit and credit cards and home loans. We also offer access to a range of different payment methods, including the New Payments Platform (NPP), BPAY, Direct Entry, cards, and SWIFT. Macquarie recently moved from issuing Multi Network Debit Cards (MNDC) to Single Network Debit Cards (SNDC) due to the additional costs that we were incurring to support two debit networks. These costs were significant on a "per card account" basis due to the small size of our debit card portfolio. We acknowledge that this problem has been recognised in the Review of Retail Payments Regulation's Consultation Paper (as released on 28 May 2021) and support the RBA's recommendation that smaller card issuers should be allowed to issue SNDC.

Comments on Debit Card Recommendations

Macquarie makes the following comments in relation to the preliminary views taken by the RBA on debit cards in the Consultation Paper:

- We believe that the two-tier cap system that is proposed on MNDC and SNDC interchange rates is a good approach, and that the four cent differential between these caps should provide sufficient incentive for larger issuers to continue supporting MNDC. Although our own portfolio will be held to interchange rates of six cents per transaction or less, we understand and support the logic of SNDC economics being restricted in this way.
- If the proposed caps on MNDC and SNDC interchange rates are enacted, debit cards in general, and SNDC in particular, will become a low-cost method of payment acceptance for merchants. Section 3.2.1 of the Consultation Paper notes that the average debit card transaction is now $50, against which –

- the proposed 10 cent interchange cap on a MNDC would amount to 0.20 percent per average transaction; and
- the proposed six cent interchange cap on a SNDC would amount to 0.12 percent per average transaction.

- Both percentage figures above are at or below the debit card interchange rate of 0.2 percent per average transaction as regulated in the European Union (EU). Indeed, only in transactions below $30 would the six cent interchange cap move above the EU regulated percentage.
- With more and more Australian merchants adopting a Merchant Service Fee (MSF) structure of "Interchange +" [1], we expect that the lower interchange caps on MNDC and SNDC will result in lower costs for merchants. The MSF statistics published by the RBA show that in March 2021, the average MSF on EFTPOS debit was 0.3 percent and on Visa/Mastercard debit (including online and overseas transactions) was 0.5 percent. Both of these figures should see downward pressure with the enactment of the new caps.

Lower Costs of Acceptance and Surcharging

- In the EU, when card interchange costs were regulated lower to 0.2 percent debit and 0.3 percent credit, surcharging on card transactions (EU card at EU merchant) was not allowed, as the resultant transaction costs for a merchant were considered to be near that of accepting cash. Cash has traditionally been considered to have the lowest cost of acceptance by merchants and in most jurisdictions the surcharging of cash (the country's "legal tender") payments is not permitted.
- In Australia today, when choosing to levy a surcharge on card payments, many small "bricks & mortar" merchants put a "blended" surcharge on both credit and debit transactions. Such an approach already unfairly penalises the lower cost debit card transactions, being well above the true cost of acceptance of debit. If the new interchange caps are enacted on debit cards this will further widen the gap between the blended surcharge and the true cost of acceptance of debit.
- Surcharging of debit card transactions encourages some consumers into switching to use cash for the payment. Above relatively modest payment amounts, cash becomes an economically more expensive payment method than debit card and can also bring other risks to the economy.
- The use of blended credit/debit surcharging can have the potential consequence of driving the consumer from using a debit card to transacting with a premium credit card, having rewards and the highest interchange cost - on the basis of "If I'm going to pay a surcharge, I might as well earn some points".
- We believe that, if the new caps on debit card interchange rates proposed in the Consultation Paper are enacted, then the surcharging of debit card transactions in Australia[2] should be banned (as it is in the EU) - as the cost of debit card acceptance for a merchant will be similar to (and at higher values would be below) that of cash. If the cost of accepting cash as payment sets the baseline for "no surcharge" at a merchant, then we consider that the new debit interchange regime will lower the cost of acceptance of these cards to a similar base; with no material

[1] "Interchange +" comprising the actual interchange incurred on the transaction (which varies by card type, channel and merchant category) and a margin covering the Scheme fees, processing costs and acquirer profit margin.
[2] Australian issued debit card being used at an Australian acquired merchant.

differential cost between the acceptance of cash or a debit card. Consequently, neither should be allowed to apply a surcharge.

- We believe that the removal of surcharges on Australian debit card transactions would help to continue to lower the overall cost of payments and would be welcomed by consumers.

We trust that our comments and suggestions above will assist the RBA in formulating its holistic review of the regulatory framework for debit card payments, and if we can be of any further assistance, please feel free to contact me at Drew.Hall@macquarie.com or +61 421 611 317. Yours sincerely,

Drew Hall

Head of Banking Product, Macquarie Group Limited