

6th of February 2020

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

Email: pysubmission@rba.gov.au

Dear Sir/Madam,

RE: ALNA Submission on RBA Review of Retail Payments Regulation Issues Paper

The Australian Lottery and Newsagents' Association (ALNA) is the national industry body representing Lottery Agents and Newsagents' who represents small businesses in almost every rural town, regional centre, urban and metropolitan shopping centre in Australia.

There are over 4000+ Lottery Agents and Newsagents' in Australia. They are an important and trusted part of Australian communities and approximately 35% of the Australian population visit them at least once a week. Our members therefore make a significant contribution to the Australian economy, employing over 20,000 people and generating an estimated annual turnover of \$6 Billion.

Agencies have commercial relationships with over 25,000 other businesses, further demonstrating their valuable contribution. We are one of the largest independent retail channels in our community.

ALNA contributed to the previous review of card payments regulation in 2015/16 and the resulting helpful reform to revise interchange standards was well received, surcharging standard changes were relatively easily adopted in our channel as has been the positive reform to enable least cost routing more recently.

ALNA appreciates this opportunity to again provide insights in our submission on matters that directly affect our members and to provide our members' views on the use of Card Payments in our industry.

Introduction

Our merchants regularly tell us that the cost of processing card payments is one of the top five issues in their businesses. Payment costs are now more apparent than they were when cash was the primary payment method and have continued to increase as a percentage of turnover as cash has been displaced.

It is fair to say that newsagents and Lottery Agents do not have the same level of control over commercial levers in different parts of their business as some other retailers. They 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 margins on volume products with fixed pricing linked to fairly inflexible contracts. This makes them 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 such as upward pressures on payment costs from processing a large number of low volume retail transactions..

As a result, we are always exploring ways to keep the cost of payment acceptance as low as possible and our goal is to achieve a significant and meaningful reduction in the disparity which exists between large and small merchants in their payment costs.

We support a payments system that can provide our retailer's access to affordable, innovative and efficient systems for accepting payment, whilst remaining safe and robust for consumers and merchants alike. We believe a strong regulatory system is required to support this and that it needs to be equitable and fair for all participants, as well as being flexible enough so that new payment systems can be covered as they evolve.

While less than ten per cent of newsagents accept Amex or Diners Club, we are of the view that regulation must apply equally to all payments systems including American Express, Diners, Union Pay, JCB, PayPal etc. Our view is that fairly broadening the regulation to include all other payment methods will reduce costs for our members.

We have chosen to respond to just a selection of the questions in the review that relate to our members concerns and needs, and haven't responded to some of the questions of a more technical nature that don't relate to our area of expertise or representation.

Our Submission on specific questions.

Q1: What major recent or prospective developments in the broader payments industry are particularly relevant to this review? More specifically, are there any gaps in functionality available to end users or any shortcomings in industry governance or operating arrangements that require regulation or coordinated industry action?

One area of interest for our members who are lottery agents is the issue of payments and payouts for prizes won. In a lottery outlet, as is occurring across retail, payments are quickly transitioning to debit card transactions predominantly. However, payouts which are regulated generally around 60% of any lottery pool, are predominantly still paid out in cash as this remains the consumer preference, although this is slowly changing. Nonetheless, as access to cash for retailers dries up over time, their capacity to continue with cash payouts will become more costly and difficult.

As a result, the capacity to make real time payments back to all cards types and through other

avenues such as apple pay without burdensome regulatory issues will be important. Sometimes these amounts will be greater than the original transaction of course and so the RBA should consider how this can be done seamlessly for the merchant and consumer without friction, impediment or further charges.

Q4: How do stakeholders assess the functioning to date of least-cost routing (LCR) of contactless debit card payments? Do additional steps need to be taken regarding LCR to enhance competition and efficiency in the debit card market?

Over recent years the growth in contactless payment availability has compounded a faster transition away from cash due to the convenience and speed of contactless. Our members report that this has increased pressure on their costs, and this has occurred at the same time as the cost of accepting debit transactions, has increased for a large number of our members.

ALNA lobbied previously for positive changes to reduce interchange, more transparent information to improve clarity and transparency for merchants, and fairer tools for merchants to have at their disposal to address forced routing.

The introduction of Least cost routing (LCR), which started to roll out in our industry in 2019 has been a positive step in this direction and it has tempered some of the increase in costs for those merchants who have adopted it. In our industry, it is certainly showing signs that it will positively improve merchants' costs.

Where LCR could improve the small business experience however is in determining which gateway represents the lowest cost for all debit transactions. While blended rates are convenient and generally easier for a merchant to determine their costs, a lack of transparency of visa/MC debit transactions costs in blended credit rates and a lack of knowledge of payment architectures makes this hard for most merchants to navigate and to fully understand. In recent times more competition on debit rates means that it is more important to unpack this and the bundling of Visa/MC debit with credit leads to the real cost of credit being less clear to the merchant.

We have addressed the issue of transparency more fully below in our comments on Question 6 & 7.

Through our relationship with COSBOA, we support their submissions exploration of opportunities to, *'improve the LCR functionality through introducing a regulatory requirement for retail payment systems to support 'dynamic' LCR where the system uses algorithms that operate in real-time to select the least cost payment route for each debit transaction processed by a retailer.'* This option should be explored in much the same way as the National Payments Platform (NPP) was developed and adopted to provide an overall infrastructure solution for all industry participants for payments.

Q6: Is there a case for further policy action to enhance competition in the provision of acquiring services to merchants? If so, what form could this action take?

Q7: Is there a case for greater transparency in scheme fee arrangements, including their effect on payment costs? If so, what form should this take?

The RBA noted on P.20 of the issues paper that, *'there may be some impediments to competition in the acquiring market for smaller merchants. One of these impediments may be the relatively higher barriers to switching faced by smaller merchants. The costs of searching for and switching to an alternative payment facilitator, for example, are more likely to outweigh the benefits for a merchant with low transaction volumes.'*

We feel acquirers should be made to improve clarity and transparency to merchants to make it much easier for them to be able to determine their real costs of acceptance and to be able to make more informed comparisons with other acquirers offers.

The RBA also noted on P.21 of the issues paper that, *'there is far less transparency around scheme fees. The Bank understands that the international schemes have schedules of hundreds, if not thousands, of individual fees but these are not published', and 'It may be timely to revisit the issue of scheme fee transparency as part of this review'.*

This should include separate debit and credit rates and more information on interchange rates, scheme fees and acquirer charges applicable for various products, however publishing thousands of rates is not the answer.

When providing pricing on blended rates, improved clarity to make it clearer how visa and mastercard debit products are being priced in relation to credit pricing would be helpful. RBA should consider that it is not clear to many merchants that Visa/MC debit and Eftpos debit are not like for like.

Consequently, we feel it is important that the RBA develop a model code for acquirers to provide standardised cost information to merchants, somewhat like what was achieved with acquirers providing information on cost of acceptance for surcharging standards.

While suggestions have been made that the harmonisation of cost structures might solve some of these problems, we believe it is important to continue to foster competition and product innovation to provide downward pressure on costs and that more informed merchants will also assist.

This should allow merchants to determine in the simplest possible way a reasonable range of costs including average interchange rates, scheme fees and acquirer charges appropriate to a sensible range of card type transactions so that they could compare offers more easily and this would promote competition and switching.

This might be sensibly represented as a % of the cost of acceptance in a pie or bar chart for each component so comparison could be readily made.

Q9: What are the implications of the growing importance of mobile devices and digital platforms for the retail payments system in Australia? Are there issues that arise for the Bank's regulatory regime for card payments or that are relevant to competition, efficiency and risk?

As noted in our introduction, we believe a strong regulatory system is required to be equitable and fair for all participants. It needs to be flexible enough so that new payment systems can be covered as they evolve and that it supports innovation. Our view is that there needs to be competitive neutrality and that the RBA should take a broad approach to capturing different payment systems under the regulation to include all other new payment methods that evolve as well as existing three-party schemes, as for the long-term this will reduce costs for our members.

Digital Security

We note that the use of Card not present transactions are a growing risk for merchants and we support the approach taken by COSBOA in their submission, *'that there is an opportunity for the retail regulation to be amended to stipulate a requirement for retail payment systems to utilise 'token' technology. To avoid a repeat of the competitive distortion created by the switch to contactless card payment, it is strongly recommended that this functionality be developed as a generic platform (for use by all retail card payment systems).'*

Conclusion

We appreciate this opportunity to share our views and encourage the RBA to continue with sensible reform to address imbalances in card payments regulation particularly for small merchants and to ensure merchants and consumers are well protected and able to make well informed decisions on payments and costs.

Yours sincerely,

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