

# **Master Grocers Australia Ltd**

Trading as:  
**MGA Independent Retailers**

## **Issues Paper**

### **Review of Retail Payments Regulation**

Submission to  
Head of Payments Policy Department  
Reserve Bank of Australia

31<sup>st</sup> January 2020

## **Submission by Master Grocers Australia (MGA) to the Reserve Bank of Australia in respect of Review of Retail Payments Regulation**

### **Introduction**

1. MGA is making this brief submission in response to the release of the Issues Paper Reviewing Retail Payments Regulation by the Reserve Bank of Australia (RBA). The purpose of the review is to ascertain stakeholders' feedback in regard to the effect and impact of interchange fees, merchant service fees, least cost-routing of dual network debit card transactions, ease of payments for consumers and effective reduced costs for MGATMA's National Membership base.
2. MGATMA submits that LCR (MCR – Merchant Cost Routing) must be supported by all banks to ensure the card / mobile payment system delivers economical payment choices to consumers and merchants. MGATMA submits that consumer and merchant choice must be optimized to drive an efficient, cost effective and productive payment system in Australia, mobile or otherwise.

### **About MGA**

1. Master Grocers Australia & Timber Merchants Australia (MGATMA) is a National Employer Industry Association representing the owners and operators of Independently owned Grocery and Liquor Supermarkets and timber and hardware businesses in all States and Territories of Australia trading under brand names, such as, Drakes (SA), Farmer Jacks (WA), Foodland (SA), FoodWorks, Friendly Grocers, IGA, SPAR, Cellarbrations, Bottle-O, IGA Liquor, Local Liquor and Bottlemart. Timber and Hardware businesses trade under brand names such as Mitre10, Home Timber and Hardware. Bowens Timber and Dahlsens. They range in size from small, to medium and large businesses.
2. Independently owned and operated Supermarkets, liquor stores and timber and hardware businesses play a major role in the retail industry and make a substantial contribution to the communities in which they trade.
3. These family and privately owned businesses comprise a significant subsector of the retail industry in Australia. MGATMA's 2700 independently owned supermarkets, liquor stores and timber and hardware

business members employ over 115,000 full time, part time and casual staff and transact \$15 billion in retail sales. Many MGATMA members are small family businesses, employing 25 or fewer staff.

4. Although many of the medium sized businesses would not be categorised as such from a legal perspective, they are in fact relatively “small” in comparison to the large corporate supermarkets, liquor stores and hardware businesses in the retail industry and therefore they struggle for survival against the power of the major retail chains. Through their membership of MGATMA, they are regularly provided with information on any proposed legislative or regulatory changes and how they may be affected by such changes.

### **MGATMA's response to the RBA Review of Retail Payments Regulation**

1. First and foremost, MGATMA would like to submit that it is not have expertise in banking or card and mobile payment systems, however, MGATMA acknowledges that this area has become a major “cost of doing business” for all its members around Australia.
2. Over recent years with the rapid increase in consumer uptake of new and efficient payment methods, MGATMA members have witnessed a very sharp increase in merchant payment fees that have impacted the viability of their businesses. At this point there is little relief insight albeit there is a Least Cost Routing (LCR) system developed but not implemented by most of the larger banks.
3. There was a time not so long ago when consumers paid for minor purchases with cash and reserved the use of their payment card for larger and more significant purchases of goods and services.
4. Today the phenomenon of consumers wishing to pay for all their goods and services, no matter how small the price, via “Tap and Go” and other fast payment methods, has exposed our members to exponential increases in merchant fee costs amounting to literally thousands of dollars. It is estimated that less than 5% of supermarket, liquor store and timber and hardware goods are paid for with cash when only 5 years ago this figure was estimated at 35%.
5. In the past, many customers requested “Cash Out” from our members when making payments with their debit cards. “Cash Out” provided the merchant with an opportunity to redeem some of the merchant payment fees charged for card payments. Today consumers rarely request “Cash Out”.
6. With the advent of mobile phone, Apple watch and other payment methods it is very important merchant payment fees are kept to a minimum and LCR is made available to merchants and consumers.
7. MGATMA members are at a distinct disadvantage when compared with its very powerful competitors, Coles, Woolworths and Bunnings which are in their own right regarded as Acquirers (Banks) and able to defray the cost of transacting card payments. Juxtaposed, MGATMA members rely upon a fair, well regulated, competitive card payment system to minimise merchant card / mobile payment fees.

8. Whilst MGATMA has continually advised members to urgently and persistently pursue LCR with their banks there has been little success of changeover owing to the lack of knowledge within the ranks of banking staff who deal with MGATMA members. It appears there is almost a reluctance by banks to engage with businesses to assist with the introduction of LCR.
9. **Example** - One of MGATMA members in WA was delighted to learn that it had success with its discussions with its bank to introduce LCR into its 3 Perth based supermarket businesses. The saving per annum, across the 3 stores was estimated at \$90,000. The release of this type of saving meant the store owner was able to invest back into staff and store refurbishments. Not long after the negotiations had taken place MGATMA's member contacted MGATMA to advise that the said bank had been back to him to advise that if he continued with LCR it would generate additional banking costs in other areas of his businesses which could cancel out the LCR savings. Naturally our member was confused, frustrated and disappointed. They are still working through the issues with their bank and hoping to arrive at the original savings.\*\*
10. The banking system, particularly when referring to card payments and merchant payment fees is confusing and ambiguous and gives MGATMA members little confidence when dealing with such an important payment tool and trying to minimise merchant payment fee costs at a time when the costs to do business are rising exponentially.
11. MGATMA submits that all banks must make LCR or Merchant Choice Routing readily available to all its members as soon as possible, as at this point, our members believe they are being "ripped off", as they say.
12. Competition to help minimise the cost of card and mobile payment transactions is paramount.
13. To facilitate the most cost-effective card / mobile payment system MGATMA submits that the RBA become more active to regulate or have influence over the following:
  - a. The RBA should regulate to ensure that LCR is made available broadly across all merchant segments, including MGATMA members with full transparency of their true costs for payment acceptance per payment method
  - b. All point of sale systems should require dual network functionality, including eftpos, to MGATMA members (including mobile and ecommerce) for the lifecycle of a debit product.
  - c. Drive for true transparency in Merchant Fee pricing – across all participants, for all fees.
  - d. Regulate a hierarchy of payments choice, with merchants at the top where consumers do not or cannot actively make their own choice on every payment occasion. This is important as MGA TMA members bear the cost burden of payments and this may be passed onto consumers.
  - e. All payments types, including real time payments, should be open to competition

- f. The RBA and ACCC should revisit surcharging rules to ensure they do not lead to bundled pricing and potentially higher costs for merchants and their customers
- g. Any regulation should be flexible and adaptable as payment technology and methods continue to evolve so that it remains fit for purpose.
- h. The RBA should act immediately to stop Issuers charging cardholders transaction fees for processing transactions routed to eftpos or any other scheme from dual network debit cards

**\*\* MGATMA is happy to share further information in confidence with the RBA as a part of this review.**

## Conclusion

- 14. MGATMA supports a competitive consumer driven card and mobile payment system. Allowing a payment such as eftpos to effectively compete with the major credit card institutions. This will allow more choice for consumers and help to significantly reduce interchange costs to retailers and allow consumers to take "cash out", further assisting to reduce transaction costs. This will allow the independent sector to preserve already paper-thin margins and compete more effectively against the 2 major supermarkets which are already able to minimise their transaction and interchange costs, as they are issuers in their own right.
- 15. MGATMA welcomes any initiative or regulations that enable a fair and level competitive playing field that will foster a robust and healthy competitive environment.
- 16. MGATMA would be pleased to discuss any aspect of this submission further.



**Jos de Bruin**

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