31 January 2020

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

Via email: pysubmissions@rba.gov.au

Dear Dr Richards,

RE: SUBMISSION TO RESERVE BANK OF AUSTRALIA'S REVIEW OF RETAIL PAYMENTS REGULATION – ISSUES PAPER

The Qantas Group (the Group) welcomes the opportunity to respond to certain questions raised by the Reserve Bank of Australia in its *Review of Retail Payment Regulation – Issues Paper*, released in November 2019 (the Paper).

As both a merchant and participant in the broader payments system (including through white-labelled products such as credit cards), Qantas has a broad perspective on the impact of changes to the payments system, and supports efforts to deliver efficiency and reforms where they are in the public interest.

However, and consistent with our submissions to the previous 2015-16 review, the Group submits that any regulatory developments must balance the needs of all stakeholders and only progress on the basis of evidence-based analysis where the short and long-term impacts of such potential reforms are carefully considered.

The Group's submission is based on a detailed review of the issues raised in the Paper. It focuses on those issues that the Group is best placed to provide comment including broader issues in the retail payments system, interchange fees and surcharging.

In summary, the Group submits that:

- the RBA should consider the current regulatory landscape as it applies to providers of acquiring services;
- there is no case for a further lowering of the domestic interchange benchmarks; and
- tokenised payments options (eg, through digital wallets) introduce complexity due to the anonymisation of the underlying card type, and the RBA should consider modifications to the current surcharging framework so as not to restrict a merchant's ability to recover reasonable costs.

The Group welcomes to the opportunity to discuss this submission or provide any additional information required to support the Review. Should you wish to discuss or clarify any of the issues in this submission, please do not hesitate to contact me.

Yours sincerely,

Andrew Parker
Group Executive, Government, Industry, International, Sustainability
Qantas Airways Limited

RESPONSE TO QUESTIONS IN THE PAPER

STRATEGIC ISSUES IN THE RETAIL PAYMENTS SYSTEM

Question 1: 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?

Based on its observations and amidst a growing consumer appetite for digital payments solutions, the Group believes the following issues and industry developments warrant further examination by the RBA as part of this Review:

- **Tokenised cards:** How regulations can be adapted to address the complexity and potential compliance impacts as a result of the growing volume of tokenised cards and anonymised consumer payments sources.
- **Broader issues with payments platforms, including:**
    - interoperability of domestic platforms with foreign platforms and emerging payment systems;
    - disparity in functionality across regulated domestic payment systems; and
    - digital identity interoperability between different systems.
- **Scheduled payments**: We acknowledge that the current capabilities that facilitate management of scheduled payments is insufficient, and ask the RBA to consider what further role it can play in expediting efforts to help consumers transition scheduled direct debit (or credit card) payments from one account to another, a common barrier experienced by consumers when attempting to switch bank or credit card accounts.

COMPETITION IN THE CARDS MARKET

Question 6: 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?

The Group has relationships with numerous local and international acquirers and payment facilitators. From the Group's perspective, the provision of acquiring services is complex, carries risk and requires continued investment and systems development to support merchants in a rapidly changing environment. To this end, there appears to be a global trend of consolidation and the emergence of niche providers that is driving an overall reduction in service providers. We also believe there can be a significant difference in the capabilities and services offered by providers, which is driving notable differences in pricing models and levels. This requires merchants to make trade-offs between convenience, capability and cost.

The Group therefore considers that the RBA should take steps to better understand the complexities in this market – including the differences between provider types and how to reduce barriers to entry. We believe that this work would enable the RBA to promote competition in the Australian market and broaden the availability of providers.

Furthermore, the cost and impact of switching providers has not been contemplated in past reviews, and any review should not only examine acquirers, but also extend to payment processing technology and providers such as gateways. We believe there is scope to explore more aligned standards across data provision, file formats and reporting – thus reducing complexity for payment provider integrations and making switching between providers or using multiple providers simpler.

SCHEME FEES

Question 7: 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 Group welcomes greater transparency in scheme fee arrangements. As noted in the Paper, scheme fees set by card schemes represent an increasing proportion of merchant fees. Merchants have minimal transparency on how and why these fees are applied, including how to best optimise their payment services to achieve the lowest cost outcome.

The Group submits that clarity on scheme fees as they specifically apply to card payments acquired for the merchant should be available and clearly disclosed in periodic merchant statements, for example.

We submit that the issue of scheme fee transparency should be closely considered with any proposed developments in relation to merchant service fees, an issue we discuss in our response to question 10, below.

Question 9: 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?

The Group notes the growth and proliferation of digital wallets and mobile payment applications globally. Qantas Group customers have expressed a growing preference for these payment mechanisms to be made available for use, with key drivers being convenience and security.

We also recognise these platforms are important in supporting access to domestic and emerging payment systems that do not rely on traditional electronic payment rails (i.e. the New Payments Platform). However, unchecked, the fragmentation and volume of payment mechanisms can create significant challenges for merchants.

The Group welcomes the RBA's decision to further investigate this area and looks forward to participating in a dialogue in relation to the competition, efficiency and risk issues posed by these new technologies.

INTERCHANGE FEES

Question 10: Is there a case for a further lowering of the credit or debit interchange benchmarks or any change in the way they are applied?

The Group submits that there is no clear case for a further lowering of the interchange benchmarks. In particular, the Group does not believe the concerns that preceded the last round of interchange reform in 2016 continue to persist.

Interchange fees operate in a complex market with a variety of stakeholders. Against this background, the Group contends that any further reductions to the interchange benchmarks will create regulatory and market uncertainty, all while delivering at best, marginal utility. Accordingly, the Group asks the RBA to consider:

- whether there remains a case for further reform given that the concerns that preceded the last round of interchange reform are no longer evident in today's environment (e.g. persistent upward interchange drift);

- risks to competitive neutrality between three and four party schemes as a result of further interchange reform;
- the additional imposts and complexity introduced to the industry if new regulatory frameworks are required to address any regulator-led market distortion;
- whether other reforms (e.g. scheme fee transparency) would be better suited in delivering tangible, quantifiable benefits to both merchants and consumers; and
- how regulatory developments should be prioritised in order to deliver greater, more cost-effective public benefits (including those that are mentioned in the Paper, and those that are raised in our answers to other questions posed in the Review).

We will elaborate on some of these concerns below.

Marginal public policy benefit
The Paper (at 24) cites various arguments from the Productivity Commission in exploring the case against interchange fees. These arguments are centred on supposed benefits to merchants and consumers, but rely on unproven and broad-based assumptions.

In the case of merchants, we contend there is limited evidence for the assertion that lowering interchange benchmarks brings about an overall reduction in their cost of acceptance (which the Productivity Commission assumes would lead to cheaper goods and services). This is because of the risk of merchant service fees increasing (or the introduction of new fees replicating lost interchange, a risk highlighted in the Paper at 25). In addition, we believe that there is a risk that any further interchange reductions will:

- lead to problematic and presently unknown market outcomes – thus increasing the complexity of regulation, rather than simplifying it; and
- not provide any benefit to merchants – or, at the very best, deliver marginal utility, noting the comments in the Paper (at 20) that 'the effect of interchange rates on average merchant service fees is likely to be smaller than it was prior to the regulatory changes in the 2015–16 Review'.

Similar concerns arise in the case of consumers. The Paper repeats (at 25) an assertion by the Productivity Commission that lower interchange fees would result in merchants passing on associated savings to consumers, leading to generally cheaper goods and services. In the absence of any explicit evidence supporting this broad statement, the Group submits that this argument cannot be accepted as a rational basis upon which to justify the further lowering of any interchange benchmarks.

To the contrary, the RBA should also consider the possibility that interchange fees and the actual costs of goods and services are not in a direct relationship – rather, that merchants consider a variety of overlapping factors in setting prices. The RBA must also satisfy itself that merchants would not simply keep any savings associated with reductions in interchange fees – again undermining any public utility argument associated with further interchange reform.

The Group submits that due consideration must be given the negative impacts that reductions in interchange benchmarks might have on merchants and consumers, including in their capacity as cardholders.

Risks to competitive neutrality
The Group submits that looking at the impact of interchange fees on merchant service fees, or any one issue in isolation, is erroneous. Any further reduction of credit interchange benchmarks, as noted by the RBA, can create issues relating to competitive neutrality between three and four-party

schemes. On the topic of equivalent regulation of three-party schemes, the Group agrees with the RBA's conclusion in its previous (2016) Review of Card Payments Regulation, that such an outcome 'is neither possible nor justified' (at 29, May 2016 Conclusions Paper). We urge the RBA to consider this point in light of any further developments in relation to interchange fees.

Question 11: Should regulation of interchange be extended to inter-regional interchange fees (i.e. interchange fees applying to transactions in Australia using foreign-issued cards)? What is the typical cost of transactions on foreign-issued cards, and how much of this is attributable to interchange fees?

In its experience, the Group sees significant disparity in pricing between domestic and international issued cards, and anecdotally we are seeing a rise in the volume of cards issued outside of Australia being used for domestic transactions, particularly in the corporate and wholesale categories.

SURCHARGING

Question 15: Is the surcharging framework working well? Are there any changes that should be considered?

The Group notes the rise of tokenised and anonymised payment transactions (for example, those that occur through digital wallets), which obscure the underlying payment source, creating difficulties for merchants to properly categorise payments.

The Group urges the RBA to consider appropriate regulatory developments within the surcharging framework that alleviate the complexity for merchants where anonymised payments options are used – while ensuring that such frameworks consider technological and compliance costs to merchants.