

9 July 2021

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Dear Dr Richards

Response to the Review of Retail Payments Regulation – Consultation Paper

Thank you for the opportunity to respond to the Reserve Bank of Australia (Bank) Review of Retail Payments Regulation – Consultation Paper (Consultation Paper).

About Payments Consulting Network and Merchant Pricing Hub

Payments Consulting Network (PCN) has been providing consulting and advisory services to the financial services and payments industry since 2013.

More recently, over the last 12 months we have supported over one hundred small, medium, and large businesses, industry associations, and not-for-profit organisations, to lower payments acceptance costs and improve service levels. Our Merchant Pricing Hub service (merchantpricing.com) highlights the range of services we provide including: pricing comparisons, payments optimisation reviews, request for proposal management and card scheme negotiations.

Consultation Paper Policy Framework Components

Dual-network debit cards (DNDCs) and least-cost routing (LCR)

- 1. The Bank would state an explicit expectation that the major banks will continue to issue DNDCs, with both schemes to be provisioned in all relevant form factors offered by the issuer (such as in mobile wallets as well as physical cards).**

PCN supports continued issuance of DNDCs by the major banks and the provisioning of both schemes in all relevant form factors offered by the issuer (e.g. mobile wallets and physical cards).

Wide scale availability and use by consumers of DNDCs is critical to the ongoing rollout of least-cost routing, which gives merchants choice and the ability to process transactions according to the lowest cost network. PCN notes that the eftpos Priority 2 Gold Package Rate is 2 cents (which applies to DNDC transactions routed to eftpos) which is significantly lower than the 6 cent single network debit card (SNDC) interchange fee cap proposed by the Bank.

Any move to SNDCs will also see consumers losing access to services such as cash out and real time Medicare and health fund refunds.

Hence, PCN only supports further issuance of SNDCs by non-major banks should the interchange fee cap for SNDC transactions be set at a lower level than DNDC transactions as proposed in points 2 and 6, which follow.

2. The Bank's interchange standards would be amended to set a lower cents-based interchange cap for SNDC transactions than for DNDC transactions.

If the Bank is to continue to permit non-major bank card issuers to offer SNDCs, then PCN supports setting a lower cents-based interchange cap for SNDCs to incentivise continued issuance of DNDCs.

3. The Bank would state an expectation that all acquirers and payment facilitators (which provide card acceptance services to merchants) will offer and promote LCR functionality to merchants in the device-present (in-person) environment.

All acquirers and payment facilitators already offer LCR functionality to merchants in the device-present (in-person) environment and information on how this can be enabled is typically made available on their websites.

However, PCN would like to raise the following observations:

- PCN has supported over one hundred small, medium, and large businesses, industry associations, and not-for-profit organisations over the last 12 months reduce their payments acceptance costs. Less than 7% of these clients had enabled LCR prior to PCN being engaged. Hence, while acquirers and payment facilitators provide LCR capability and information on how to enable it, most merchants still have not taken advantage of this feature.
- Requesting LCR be enabled can also lead to mixed results in some instances. During our project work over the last 12 months, we have been informed of several instances where retail and hospitality clients had requested LCR be implemented but were advised by their incumbent bank that the savings would be minimal, or that total fees may increase. Some examples of these have been outlined below:
 - Merchant #1 (circa \$1 million annual payments) – advised by the incumbent bank that implementing LCR would lead to an increase in total fees. PCN achieved a fee saving of over 30% by moving the client to a more cost-effective pricing plan with LCR enabled using an alternate bank.
 - Merchant #2 (circa \$100 million annual payments) – received an LCR pricing restructure proposal from the incumbent bank that would achieve a fee saving under 1%. PCN ran a competitive tender process (with LCR enabled) and accessed lower strategic merchant rates resulting in improved pricing with an alternate payment facilitator that achieved a fee saving of over 30%.

- Merchant #3 (circa \$100 million annual payments) – received an LCR pricing restructure proposal from the incumbent bank that would achieve a 10% fee saving. PCN ran a competitive tender process (with LCR enabled) and accessed lower strategic merchant rates resulting in improved pricing with an alternate payment facilitator that achieved a fee saving of over 30%.
- Merchant #4 (greater than \$500 million annual payments) – had already enabled LCR with the incumbent bank. PCN ran a competitive tender process (with LCR enabled) and negotiated lower strategic merchant rates resulting in improved pricing with an alternate payment facilitator that achieved a further fee saving of circa 20%.
- The simple pricing plans offered to micro merchants by many banks and payment facilitators (e.g. by Commonwealth Bank¹, Westpac² and Square³), offer a single flat monthly fee or a single flat ad valorem fee for Visa, Mastercard and eftpos transactions. Given there is no differentiation in pricing between card schemes and card types (credit and debit), these plans are effectively ineligible for LCR and/or do not pass on the benefits of LCR to merchants. In contrast, NAB⁴ offers a simple pricing plan with LCR enabled as the default setting. While under this pricing plan NAB also offers a single flat ad valorem fee for Visa, Mastercard and eftpos transactions, the benefits of LCR appear to have flowed through to the pricing as the rate is considerably lower than that offered by its competitors with comparable plans without LCR.

PCN supports compelling all acquirers and payment facilitators to offer micro and small businesses a pricing plan option where LCR has been automatically enabled.

4. The Bank would state an expectation that the industry will follow a set of principles regarding the implementation of LCR in the device-not-present (online) environment.

PCN supports the Bank setting a 12-month timeframe for the industry to work towards the implementation of LCR in the device-not-present (online) environment.

5. The Bank would explicitly prohibit schemes from engaging in ‘tying conduct’ involving their debit and credit card products.

PCN supports the explicit prohibition of schemes engaging in ‘tying conduct’ involving their debit and credit card products as this ensures a level playing field between eftpos, Visa and Mastercard when negotiating debit card strategic merchant interchange rates.

¹ Commonwealth Bank, EFTPOS Plans & Pricing, <https://www.commbank.com.au/business/merchant-services/eftpos-terminals.html?ei=eftpos> accessed on 9 July 2021.

² Westpac, EFTPOS Machine Costs and Fees, <https://www.westpac.com.au/business-banking/merchants-and-payments/eftpos/eftpos-fees/> accessed on 9 July 2021.

³ Square, Payments Pricing, <https://squareup.com/au/en/payments/pricing> accessed on 9 July 2021.

⁴ NAB, EFTPOS Pricing, <https://www.nab.com.au/business/payments-and-merchants/eftpos-terminals> accessed on 9 July 2021.

Interchange Fees

PCN would like to raise the following observations in relation to interchange fees in terms of merchant services pricing structures:

- Interchange plus (interchange+) pricing structures are often offered to medium to large merchants. Under these pricing structures the acquirer or payment facilitator states an ad valorem merchant service fee for Visa and Mastercard transactions that covers both the acquirer margin and scheme fees. This is added to the interchange fee (based on the card type) to calculate the total merchant service fee. However, if a merchant is on a blended pricing structure the card mix (by interchange category) is not stated on the merchant statement.
- In theory, interchange+ should be more cost effective than blended pricing structures as acquirers can reduce any risk buffers built into the merchant service fee margin to allow for potential changes in the card mix over time. Hence, it is advantageous for merchants on blended pricing structures to also consider interchange+ pricing proposals.
- However, banks and payment facilitators will not readily provide merchants with card mix data by interchange category if the merchant is on a blended rate pricing structure, making it difficult for merchants to obtain and compare pricing proposals based on interchange+ pricing from alternate banks or payment facilitators.

PCN supports the Bank compelling banks and payment facilitators to make 12 months card mix data readily available to merchants at no cost should they request it. A time frame of a maximum of one request every six months could be set to make this manageable.

6. The Bank is proposing to reduce the cents-based debit interchange cap from 15 cents to 10 cents for DNDCs (and all prepaid cards) and 6 cents for SNDCs.

PCN supports this proposal as it will lower the underlying cost paid by smaller merchants that do not have access to strategic merchant rates.

7. The Bank is proposing to require schemes to publish interchange fees on transactions on foreign-issued cards on their websites.

PCN supports further transparency of interchange fees, including foreign-issued cards.

Scheme Fees

8. Schemes would be required to provide the Bank with access to their scheme fee schedules and all scheme rules, and to notify the Bank promptly of any changes to these. Schemes would also be required to provide quarterly data on scheme fee revenue and rebates to the Bank. The Bank would consider publishing some of the aggregate data, to provide stakeholders with greater visibility over the average levels and growth rates of these fees across schemes. Larger issuers and acquirers would also be required to provide annual data on scheme fee payments to act as a cross-check on the data reported by the schemes.

Some banks and payment facilitators offer interchange plus plus (interchange++) pricing structures. Under these pricing structures the acquirer or payment facilitator states an ad valorem merchant service fee for Visa and Mastercard transactions that covers the acquirer margin. This is added to the interchange fee (based on the card type) and scheme fees to calculate the total merchant service fee. However, as the scheme fees are not publicly disclosed and available to merchants, this makes it impossible for merchants to directly compare such pricing to interchange plus pricing or blended pricing.

PCN supports the Bank publishing average scheme fee data by card scheme and card type (credit and debit) on an annual basis.

Surcharging

9. The Board is not proposing to require any 'buy now, pay later' (BNPL) providers to remove their no-surcharge rules at this time but considers that a policy case could emerge in the future and will keep this issue under review.

PCN's view is that BNPL solutions are regarded by merchants as alternative payment methods akin to accepting credit card payments as many attributes are similar - merchants get paid within days of the purchases being made, and the BNPL provider takes on the risk, including fraud and customer late payments.

Based on the data provided to the Bank by a number of BNPL providers, the (weighted) average merchant fee across the sector was 4.3% of the transaction value in the March quarter 2021. However, there can be considerable variation both in the fees charged to particular merchants and across individual BNPL providers. In contrast, looking at the Bank's payments data for the same period, the average Visa/Mastercard credit merchant service fee was 0.80% and the average American Express merchant services fee was 1.3%⁵. However, unlike with accepting credit card payments, merchants are generally prohibited from adding a surcharge to BNPL payments.

The above highlights that merchants are effectively paying the consumers' credit funding cost and higher BNPL margin via the higher merchant service fee when BNPL payment methods are used. Merchants should have the choice on whether to pass on this cost to consumers via a surcharge.

PCN supports requiring BNPL providers to remove their no-surcharge rules.

Summary

Thank you for the opportunity to provide feedback on the Review of Retail Payments Regulation Consultation Paper.

PCN believes support for dual-network debit cards is required to underpin competition between the card networks on debit interchange fees and is critical to the ongoing rollout of least-cost routing, which gives merchants choice and the ability to process transactions according to the lowest cost network. Thereby helping to reduce the cost of payments acceptance.

PCN looks forward to discussing this response with the RBA.

Yours sincerely



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⁵ Reserve Bank of Australia, C3 Average Merchant Fees for Debit, Credit and Charge Cards, <https://rba.gov.au/statistics/tables/xls/c03hist.xlsx> accessed on 9 July 2020.