



Australian Lottery and Newsagents Association

9th of July 2021

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

Re: Consultation – RBA Review of Retail Payments Regulation

By email: pysubmissions@rba.gov.au

Introduction

The Australian Lottery and Newsagents' Association (ALNA) is the national industry body representing Lottery Agents and Newsagents'. These small businesses are 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, and so has the positive reform to enable least cost routing. We have again contributed to the most recent review of card payments in 2019/20.

ALNA appreciates this opportunity to again provide insights in our submission on the preliminary conclusions of the Payments System Board regarding this review and matters that directly affect our members, and to provide our members' views on these and the use of card payments in our industry.

Our Submission

Our merchants regularly tell us that the cost of processing card payments is one of the most important issues in their businesses. Payment costs are now more apparent than they were when cash was the primary payment method and they have continued to increase as a percentage of turnover as cash has been displaced even more rapidly during the COVID-19 pandemic period. A recent survey of our members on impacts of the pandemic revealed that over 90% had experienced an increase in card payments, and over 75% of respondents reported card transactions making up over 60% of their turnover now.

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. For example, the cost of acceptance of card payments for lottery tickets, which is one of our members largest categories, can be as much as 10% of their total commission for the sale of these products. This makes them particularly vulnerable to increased costs of payments, 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.



As a result, we are always exploring ways to keep the cost of payment acceptance as low as possible and our goal is to continue to achieve a significant and meaningful reduction in payment costs as card transaction volumes continue to grow and therefore efficiencies should flow back to the merchant and consumer. Healthy competition for payment transactions is vital to achieving this.

We support a payments system that can provide our retailer's easy access to affordable, innovative and efficient systems for accepting payment, that give them some control over their costs 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 and networks can be covered as they evolve.

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 card payments and digital wallet phone type payments. Our members report that this has increased pressure on their costs, along with cashless preferences from a public health perspective during the pandemic.

ALNA has 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 an extremely positive step in this direction and it has tempered some of the increase in costs for those merchants who have adopted it. ALNA has promoted it widely to our membership and it is becoming more commonly adopted over time as it has positively improved many merchants' costs. We have collected a number of case study examples from our member newsagents who have adopted LCR in recent times, including a newsagent in WA who saved \$700 a month in the first few months after switching to LCR and a newsagent in Brisbane who saw a decrease of 35% on merchant fees after switching to LCR. These are but a few of the positive stories.

Nonetheless, in line with analysis conducted by eftpos in June this year, which suggests that less than 10% of debit transactions in Australia currently have the benefit of merchant choice routing, we believe that the take up of LCR in our sector is similar, and it has not occurred as fast as it could, or should have, and that there are a variety reasons for this, so more needs to be done to educate merchants whose banks have not adopted it. We therefore support the RBA's stated expectation that all acquirers and payment facilitators (which provide card acceptance services to merchants) should offer and promote LCR functionality to merchants.

It is very concerning however to read about the potential challenges to the long-term viability of LCR, and this is something we take very seriously because it challenges the viability of our small businesses and small retailers. A loss of competitive tension between the debit schemes due to a wider issuance of single network debit cards (SNDC's) is a potentially damaging risk and so we strongly support policy action that encourages access to competitive networks.

ALNA is of the view that the RBA should therefore mandate the issuance of dual network debit cards (DNDC's), and further, we believe the provision of LCR functionality to merchants should be a regulated requirement as many impediments are slowing down its adoption unnecessarily. Encouraging competition between debit schemes to occur solely on the basis of their debit card offerings at the merchant POS for payment pricing is important for merchants and so should be a priority, ideally this would allow multiple networks to compete for those transactions and this would prevent any anti-competitive behaviour.

We are also strongly of the view that regulatory action is urgently required to extend coverage of LCR to mobile phone or device (mobile wallet utilising the same debit card) and online transactions, as well as a requirement to issue DNDCs beyond the major banks is vital, as without these actions we are likely to see a continued undermining of LCR over time.



The issue of cost of issuance of DNDC's for smaller financial institutions may also be very real and so this is the policy and cost challenge we should be seeking to solve, not allowing an undermining of the competitive model to address it, as is suggested in the conclusions of the Payments System Board. In other markets where competition in debit has been reduced, it has resulted in an increase in scheme fees. For example, in the UK, where the domestic debit scheme was sold and subsequently closed, the cost to merchants increased, despite the regulator capping interchange fees.

On the issue of transparency for merchants, ALNA supports the RBA proposing to require schemes to publish interchange fees on transactions on foreign-issued cards on their websites, and we also support the Bank requesting and publishing some of the aggregate scheme fee data, to provide stakeholders with greater visibility over the average levels and growth rates of these fees across schemes. We believe over time that these transparency requirements need to be built on and expanded so that our merchants can easily assess all costs that contribute to their merchant fees.

Conclusion

ALNA appreciates the RBA undertaking this further consultation. It has provided a valuable opportunity for us to address the concerns and experiences of our members, in particular their vulnerability and exposure to increasing payment costs.

Maintaining a competitive payments and debit system is vital for the sustainability of small businesses in this country and should be strongly defended. Merchants must have competition and be able to choose the lowest cost scheme for their transactions for this to be achieved.

In summary, the following actions are vital to our members:

- Dual network debit cards must be mandatory as part of every bank's social obligation to competition in Australia.
- Least cost routing should be the regulated default option for all merchants in all payment channels, including tap-and-go, mobile wallets, and online transactions.
- There must be full transparency of merchant fees.

Thank you for carefully considering our industry and retailers views.

Kind regards

Ben

Ben Kearney

Chief Executive Officer

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