# Submission for the Review of Retail Payments Regulation

Liron Lightwood

As a consumer, I believe that the following changes should be made to payment regulations to make them fairer for consumers and perhaps also merchants:

* Surcharging of card payments should be reduced so that they are on a level playing field with cash, whose costs are routinely absorbed by retailers.
* Some or all debit card payments should not be surcharged if debit cards have replaced cash as the payment method of choice.
* The possibility of relatively high interchange fees can on low value transactions should be eliminated.
* Least cost routing should really be least cost for consumers, but it may not always be the case.
* Regulations should be extended to all current and future payment methods similar to existing card payments.
* Inter-regional interchange fees should be included.
* Surcharging should be a price signal to consumers not a blanket cost recovery tool.

Furthermore, the following recent developments should be considered:

* Australia is approaching Sweden’s level of cash use when it was making headlines.
* Debit card payments are probably the new payment method of choice now.
* Some banks are issuing debit cards without EFTPOS.

Finally, in order to help people in the transition towards a cashless society:

* Consider keeping cheques as a last resort payment method.
* A group should regularly monitor payment accessibility to identify groups that have problems easily making payment and appropriate solutions.

These are discussed in more detail below.

# Recent Developments in Payments (Q1)

## Australia is approaching Sweden’s level of Cash Use When it Made Headlines

Things have changed significantly since the Reserve Bank’s most recent How Australians Pay[[1]](#endnote-1) survey was released in 2016. That survey showed that 37% of consumer payments were in cash. According to Philip Lowe in a presentation[[2]](#endnote-2) on December 10 2019, the 2019 figure has dropped by about a third to around 25%. In comparison, when Sweden was making headlines[[3]](#endnote-3) for moving towards a cashless society, their rate was 20%. Australia is only a few years away from that.

## Debit cards are Likely the New Payment Method of Choice for Retail Payments

It’s quite possible that debit card transactions will outnumber cash payments, and by a lot, maybe even 3 to 2. That’s based on the graph from the above presentation for cash payments compared to the annual number of debit card transactions from Reserve Bank statistics[[4]](#endnote-4).

This is important; if debit cards rather than cash are the consumer payment method of choice, should merchants be allowed to surcharge the payment method of choice?

## Some Neobanks are Issuing Debit Cards Without EFTPOS

There is much discussion about allowing customers or merchants to choose between the international card schemes (Mastercard and Visa) and EFTPOS. However, some Neobanks are issuing debit cards with the international scheme only, i.e. no EFTPOS.

# Suggestions for Improvement of Retail Payment Regulation

# Card Surcharging Rules Should put Card Transactions on a Level Playing Field with Cash

(Q2: Are there aspects of retail payments regulation that lead to market distortions or that create opportunities for regulatory arbitrage? If so, what options should be considered as a means of addressing these?)
(Q15: Is the surcharging framework working well? Are there any changes that should be considered?)

## The Problem

Allowing merchants to pass on credit/debit card surcharges to customers in my opinion doesn’t put card payments on a level playing field with cash payments, because merchants generally don’t pass on any of the cost of accepting cash, yet they can (and often do) pass on the full cost of accepting card payments. If merchants absorb the cost of accepting cash, they should absorb the cost of accepting other payment methods such as card payments to at least the same extent, and only impose a surcharge for the extra cost, if any.

Furthermore, if debit cards become the payment method of choice, it could be argued that merchants shouldn’t surcharge debit card transactions.

## The Solution

The Reserve Bank should change the surcharging rules so that:

1. Merchants can only impose a surcharge on a card payment (or any payment method) for the extra cost over the costs they absorb for cash or some other payment method, whichever is the greatest amount absorbed.
2. Given the prevalence of card payments and debit card payments in particular, they should not impose surcharges for either the least cost debit/prepaid card transactions (based on card scheme), or all debit/prepaid card transactions.

If accepting debit card transactions is usually/always more expensive than accepting cash, then option 1 would be redundant; only option 2 needs to be implemented.

## Discussion

If option 1 is implemented then the Reserve Bank should publish benchmarks for the cost of accepting cash for different kinds of business, e.g. small vs medium vs large business, to make it easier for merchants to work out how much they could surcharge.

There are many different opinions on the cost of accepting cash. For example, card companies imply that this cost is high, while proponents of cash imply that it’s negligible.

Even published figures vary – from 0.15% of the transaction for all UK merchants[[5]](#endnote-5) to 3.9% for a survey of 741 Swedish grocery retailers[[6]](#endnote-6). Nigel Phair, from the University of Canberra, put the figure at around 2.5%[[7]](#endnote-7).

For option 2, if only the cheapest debit card were surcharge free, most consumers could easily choose between EFTPOS and Mastercard or EFTPOS and Visa (since most transaction accounts can have cards with both), but not between Mastercard and Visa (since accounts tend to allow one or the other, but not both).

# Interchange Fees Should Never be Relatively High on Low Value Transactions

(Q10: 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 Problem

Currently, there is nothing stopping low value debit and prepaid card transactions from having relatively large interchange fees. Merchant service fees only make this worse. Perhaps this is why some merchants impose a minimum of $10 or higher for EFTPOS transactions.

## The Solution

The debit card interchange fee standard (Payment Systems (regulation) Act 1998 Standard No. 2 of 2016) should be modified so that interchange fees can never be too high a proportion of a transaction, even for low value transactions. For example, the interchange fee for transactions under $75 could be set to be no more than 0.2%. Above $75, the maximum interchange fee would remain unchanged, either 0.2% or 15c per transaction. The benchmark 8c per transaction would remain the same.

## Discussion

According to the above standard, the interchange fees can be a fixed fee of up to 15c per transaction, no matter how small the transaction, with a fixed fee benchmark of 8c per transaction. Although it can be a variable fee of up to 0.2% instead, there’s nothing stopping relatively high fixed interchange fees on low value transactions. EFTPOS has fixed fees of up to 13c for some transactions, while the other card schemes go up to 15c. They also have percentage-based fees for certain situations but not others. Mastercard has a lower fee for low value transactions but only for debit cards, not prepaid cards. EFTPOS used to have a lower fee for low value transactions, but no more. Visa doesn’t have a lower fee.

Once service providers add their margin, 15c could become 30c or 35c. 35c on a $1000 purchase is negligible, but 35c on a $4 purchase is nearly 9% - nearly 10% with GST, unjustifiably high in my opinion. On a $3 or $2 purchase it would be even higher. Could this be why some merchants impose a $10 minimum or higher for EFTPOS payments?

With the move towards a cashless society, people will want to make more low value transactions by card, so this will be increasingly important.

By ensuring that interchange fees can never be too high a proportion of a transaction, I believe this will go a long way to reducing transaction costs for merchants with many low value transactions as well as making life easier for customers.

# Least Cost Routing Should be Least Cost for Customers

(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?)

## The Problem

Some banks impose transaction fees on EFTPOS transactions for accountholders that they don’t impose on debit Mastercard or Visa debit card transactions. It’s some of the smaller banks that tend to do this.

In recent years, many smaller banks that used to do this have stopped doing this.

## The Solution

There should be rules whereby consumers are not penalised if a merchant chooses to route a transaction via one scheme over another.

# The Regulations Should Cover All Current and Future Schemes that are Similar

(Q9: What are the implications of the growing importance of mobile devices and digital platforms for the retail payments system in Australia?)

## The Problem

The interchange fee regulations refer to Mastercard, Visa, EFTPOS and American Express. However, what if banks adopted other payment schemes (e.g. China UnionPay)? What if they adopt QR-code schemes such as WeChat or Alipay domestically? What if there were new western equivalents?

## The Solution

The interchange fee regulations should be extended to cover all current and future schemes that are similar to debit and credit card payments.

As such, the American Express companion card designation shouldn’t be removed unless it’s accompanied by some future-proofing.

# Regulations Should be Extended to Inter-regional Interchange Fees

(Q11: Should regulation of interchange be extended to inter-regional interchange fees)

The regulations should be extended to inter-regional interchange fees. Otherwise some merchants may not accept overseas issued cards because of higher costs. With a move towards a cashless society, there should be no barriers for overseas visitors to pay for thing in Australia with cards. The EU has already done this, Australia should follow suit.

# Applying regulation to three-party schemes (Q12)

(Q12: there a case for applying regulation to three-party card systems? What form could this take?)

In my view, payment regulations should apply to all current and future schemes that are similar to current credit or debit card payments. In my opinion many three-party scheme products are similar to credit card. For example, charge cards are like a credit card where you choose to pay the full balance by the due date, except that you don’t a choice to do otherwise. As such, three party schemes should be included in the regulations to the maximum extent reasonably possible.

As a consumer, the greatest power that I see that merchants have over these schemes is that they can choose not to accept their cards.

# Surcharging Should be a Pricing Signal of Costs, not a Blanket Cost Recovery Tool

(Q15: Is the surcharging framework working well? Are there any changes that should be considered?)

## The Problem

Surcharging should allow merchants to signal to customers that certain transaction methods are more expensive than others, and to only pass on such extra costs to customers who chose that method. It should not be used as a blanket method of recovering all of a merchant’s transaction costs.

For example, once when booking a tour, I had a choice to pay by card or Paypal. The credit card option attracted a surcharge from the tour retailer, while the Paypal payment attracted a similar surcharge, though this wasn’t made clear at the time. There were no other payment options.

## The Solution

Apart from everything else, there should be a rule that merchants must absorb the costs of at least one payment method (e.g. the cheapest) and only impose surcharges on other payment methods for the extra costs that they incur.

There should also be a provision that the method should be reasonably likely to be used by customers, e.g. it can’t be so convoluted or inconvenient that customers are discouraged from using it.

# Other Suggestions

## Consider Keeping Cheques as a Last Resort Payment Method

Rather than phasing out cheques completely, one option might be to keep cheques, but only as a last resort for groups of people for which electronic transactions would be too difficult (e.g. the elderly).

For example, in the future, a decision could be made to phase out cash completely, but people such as the elderly would still be able to use cheques. When paying at a store, they would present a card (which would be tapped for a pre-authorisation) and they’d also write and hand over a cheque. The transaction would only be completed once both pre-authorisation has occurred and the cheque has been cleared and settled.

## There Should be a Group that Looks at Payment Accessibility

With the move towards a cashless society, there may be groups of people who find it difficult to pay for things (e.g. the elderly, disabled people, tourists). There should be a group that regularly identifies these groups and works on solutions to ensure that these problems are minimised.

1. References

 How Australians Pay: Evidence from the 2016 Consumer Payments Survey - Mary-Alice Doyle, Chay Fisher, Ed Tellez and Anirudh Yadav – Reserve Bank of Australia [↑](#endnote-ref-1)
2. A Payment System for the Digital Economy – Philip Lowe – Reserve Bank of Australia – December 10 2019 – <https://rba.gov.au/speeches/2019/sp-gov-2019-12-10.html>, NOTE some references are from the speech audio [↑](#endnote-ref-2)
3. In Sweden, a Cash-Free Future Nears – New York Times – December 27 2015 – <https://www.nytimes.com/2015/12/27/business/international/in-sweden-a-cash-free-future-nears.html> [↑](#endnote-ref-3)
4. Debit Cards – Original Series – C2.1 – Statistical Tables – Reserve Bank of Australia – November 2019 [↑](#endnote-ref-4)
5. Payments Survey 2016 – British Retail Council - <https://brc.org.uk/media/179489/payment-survey-2016_final.pdf> [↑](#endnote-ref-5)
6. a study by Niklas Arvidsson of KTH and Jonas Hedman of Copenhagen School of Economics, referenced in När slutar handeln med kontanter? Nu finns det ett datum för det (When does the trading stop with cash? Now there is a date for it) – ComputerSweden - <https://computersweden.idg.se/2.2683/1.690197/kontanter-slut-datum> - translated into English using browser auto translate [↑](#endnote-ref-6)
7. Contactless Payments: The Real Cost of Carrying Cash – Katie Burgess – The Canberra Times, April 15 2016 retrieved from <http://www.canberratimes.com.au/business/retail/the-real-cost-of-carrying-cash-20160414-go60cf.html> [↑](#endnote-ref-7)