

20th July, 2021.

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

Via Email [pysubmissions@rba.gov.au](mailto:pysubmissions@rba.gov.au)

Dear Sir / Madam,

**RE: Review of Retail Payments Regulation**

Thank you for the opportunity to comment on the Australian Payment's System Review Consultation Paper published in May 2021.

**AACS Introduction**

Established in 1990, the Australasian Association of Convenience Stores (AACS) is the peak body for the convenience industry in Australia. Nationally, the industry employs over 74,000 people in over 7,000 stores. The majority of these stores operate as small, family-run businesses, often under licence or a franchise agreement, or with independent ownership. They regularly employ family members and people from the local communities in which they operate. The AACS represents the interests of these small businesses - their owners, staff, suppliers and customers.

Each year the AACS commissions an independent body to measure key metrics in the sector, which is published as the *State of the Industry Report*<sup>1</sup>. Turnover in the convenience industry in Australia was valued at approximately \$35.6 billion annually in 2020, the latest figure for which data is available. This consisted of \$9.2 billion in merchandise sales, and a further \$26.4 billion in petrol sales.

The AACS appreciates the opportunity to put forward its views on behalf of our members in this submission on the preliminary conclusions of the Payments System Board, regarding this review and how it directly impacts our members.

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<sup>1</sup> The report contains the most comprehensive information available on the convenience industry in Australia. We have also recently commissioned research on how consumers have used the convenience channel over the course of the COVID-19 pandemic; we would be pleased to provide both of these to the RBA if this will assist any decisions or actions to be taken.

## **Our submission**

Consumer payment behavior has been transforming over time to become more reliant on a cashless, or as has been marketed and encouraged during covid times, a touchless payment system that requires limited human interaction. The acceleration to touchless payment methods and the ever increasing shift to online transactions has bought about a significant cost increase for our merchants.

Convenience retailers throughout Australia account for 3.3 million transactions per day and 171 million per year. With 90% of those transactions being via card, of which 70% are debit transactions.

Our members are subject to a number of cost pressures that have only been amplified in recent times as result of a downturn in foot traffic as an outcome of the external environment the that the covid pandemic has created. We see the platform of this review, as a prime opportunity for the RBA to align further with the federal treasury narrative and play its role in providing a clear, consistent, and predictable pathway forward for small business in the most unpredictable times of this generation.

We support a payments system that can provide our retail members with access to affordable, innovative and efficient systems for accepting payment, that give some control over their costs whilst remaining safe for the consumer and the merchant alike. We believe that this can only be achieved through a strong and robust regulatory environment for the services provided. Transparency and surety will mean that equity and fairness will be achieved for all stakeholders, but also allowing the 'ground rules' to be set for new entrants and a healthy competitive environment to be achieved.

### **Least Cost Routing (LCR)**

RBA's own figures suggest that fewer than 10 per cent of debit transactions in Australia are conducted via LCR. Taking these figures and applying them to our sector means that currently 108 million debit transactions per year are being conducted without a choice for the merchant on where they are routed and without some control of the associated costs. Increased access to LCR is essential to ensuring small businesses are charged more affordable transaction fees. It is critical that extending the accessibility to Dual Network Debit Cards (DNDCs) that offer merchants 'choice' between international schemes and companies such as eftpos. Analysis conducted by CMSPI concludes that the average fee for a debit transaction from Visa to Mastercard is a staggering 72.68% than that of the same transaction via eftpos. When attempting to accommodate every consumer purchase is paramount to the survival a small business, this inequity is unworkable.

According to eftpos Australia, examples of LCR can materially benefit retail business is as follows:

- An independent supermarket with an average basket of \$44 could save as much as \$24,990 p.a. on the costs associated with merchant fees on debit transactions.
- An independent petrol station with an average basket size \$44 could save as much as \$12,495 p.a. on the costs associated with merchant fees on debit transactions.
- An Independent newsagency with an average basket size of \$36 could save close to \$3000 on the costs associated with merchant fees on debit transactions.

Drawing your attention to the independent petrol station example as being significant. As mentioned earlier in this submission, our sector of small businesses has seen their running costs amplified through the pandemic and the recovery period being slow and continually disrupted. Savings of this nature would be a welcome relief.

As the consumer transformation journey evolves. The reliance on mobile phones to become the primary storage for payment cards becomes broader. The associated costs for the merchant for using a device containing a wallet such as Apple or Google Pay as payment options must be future proofed as part of this review. Currently there is only one expensive international scheme that this payment is routed through. There isn't an option to have access to LCR even though the physical card does. This again is unworkable and reduces the overall retail margins significantly. To quantify the impact of these factors CMSPI forecasts that this reduces the potential use of LCR on domestic card transactions to 7.32%. These issues are compounding quickly as consumers payment behavior's change. However, without change and well thought through regulation, the downstream flow on the cost impact from merchant to consumer will continue to be profound.

## **Recommendations**

AACS appreciates the RBA undertaking this consultation. It has provided a valuable platform to address the concerns of our members.

The critical theme's that we have highlighted, is that convenience outlets throughout the nation are looking for the following outcomes from this review:

- To have a competitive payment system that is future proofed against evolving consumer payment behavior
- Merchants to have a 'choice' of the lowest cost scheme to ensure the sustainability and viability of their small business

### **The following actions are vital in achieving this:**

- Dual network debit cards must be mandatory as part of every bank's social obligation to competition in Australia.
- Least cost routing needs to 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

Once again, thank you for the opportunity to comment on this proposal. Should you require any further information, please do not hesitate to contact me by email ([theo@aacs.org.au](mailto:theo@aacs.org.au)) or phone (0423 003 133).

Yours sincerely



Theo Foukkare  
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