



National  
Retail  
Association

# Review of Retail Payments Regulation - RBA Submission

*Prepared by the National Retail Association  
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## 1. Introduction

The National Retail Association is the voice of modern Australian retail. The association works with all-sized businesses, from the biggest retailers to the smallest, to create better opportunities for all who work in the retail sector. We pride ourselves on being at the forefront of modern Australian retail, keeping pace with the rapidly changing face of the sector across a wide range of issues. No organization nationwide is better placed to inform government on the threats, challenges and opportunities facing the retail sector than the NRA.

## 2. Summary

The way in which Australians pay for everyday transactions has fundamentally changed over recent decades. Advances in technology have seen consumers increasingly move away from cash and coins to digital payment methods such as tap-and-go debit/credit cards and mobile payments.

Approximately 70 per cent<sup>1</sup> of the 6 billion transactions that occur across Australia each year is through debit cards. Regular everyday purchases such as groceries, meals, fuel and clothing are overwhelming done via debit payments in 2021. The costs imposed on small businesses via merchant fees has become significant as these payment methods have grown in popularity. Measures are needed that ensure both retailers and consumers are not being overcharged and that there is transparency as to how these complex fees are calculated.

## 3. Least Cost Routing

Increased access to Least Cost Routing (LCR) is essential to ensuring that small businesses are charged more affordable transaction fees. Unfortunately, very few retailers have access to LCR and according to the RBA's own figures fewer than 10 per cent of debit transactions in Australia are done via LCR<sup>2</sup>. Key to extending the accessibility of LCR is to maintain a strong issuance of Dual Network Debit Cards (DNDCs) that offer merchants choice between international schemes and companies such as eftpos. Indeed, analysis by CMSPI concludes that the average fee for a debit transaction from Visa or MasterCard is a staggering 72.68 per cent higher than the same transaction via eftpos<sup>3</sup>.

According to eftpos Australia, examples of how LCR can materially benefit retail businesses is as follows<sup>4</sup>:

- 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.

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<sup>1</sup> <https://www.rba.gov.au/publications/bulletin/2020/mar/the-cost-of-card-payments-for-merchants.html>

<sup>2</sup> RBA Payment Statistics. Debit Cards – Original Series – C2.1.xls. May 2020 to April 2021 equating to a year

<sup>3</sup> CMSPI, Submission to RBA regarding digital payments regulation 2021

<sup>4</sup> <https://www.eftposaustralia.com.au/payment-solutions/payment-solutions-for-business/lcr>

- An independent petrol station with an average ticket size of \$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 ticket size of \$36 could save close to \$3,000 on the costs associated with merchant fees on debit transactions.

The figures outlined in the above examples are significant. At a time when thousands of retail businesses hang in the balance, as Australia attempts to swiftly rebound from the COVID-induced recession, savings of this nature would be a welcomed relief.

Provisions also need to be made regarding mobile payments that currently only use the more expensive international schemes. It is illogical that the same debit card when uploaded to a mobile wallet does not have access to LCR even though the physical card does. Moreover, digital wallet providers such as Apple and Google Pay require consumers to navigate a maze of steps within their app to change their payment network<sup>5</sup>. To quantify the impact of these factors CMSPI forecasts that this reduces the potential use of LCR on domestic card transactions to a paltry 7.32 per cent<sup>6</sup>. These issues are even more pronounced when considered that mobile payments and digital wallets are fast becoming the more preferred way of completing transactions.

#### 4. Impact of proposed RBA approach

The NRA is concerned that the approach currently proposed by the RBA does not adequately address issues pertaining to LCR. Retailers are concerned that allowing medium and smaller banks to not issue DNDCs will result in these same lending institutions overwhelmingly offering Single Network Debit Cards (SNDCs) due to the financial incentive it provides them. The increased use of SNDCs, which removes the eftpos option, will not only reduce choice but increase the transaction fees paid by merchants. The simple solution is to mandate the issuance of DNDCs by all banking institutions to ensure businesses have maximum access to cheaper merchant fees. According to CMSPI, extending LCR to all transactions types could save merchants as much as a combined \$2.3 billion annually<sup>7</sup>.

Ultimately, these increased costs to small business will be passed onto consumers via higher prices. At a time when Australia is attempting to recover from its first recession in 30 years the timing could not be more unfortunate. Also, SNDCs prevent users of these cards from accessing cash out when they shop and patients from accessing Medicare claims immediately when they attend the doctor. The impact of the proposed approach by the RBA on everyday activities should be given serious consideration before finalizing changes to Australia's debit payment system.

In addition, the NRA is concerned that the RBA is not addressing barriers to LCR in relation to mobile payments. The USA has implemented a common-sense reform that ensures mobile devices are not solely routed through the more expensive international schemes. Retailers

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<sup>5</sup> <https://support.apple.com/en-bn/HT209137>

<sup>6</sup> CMSPI, Submission to RBA regarding digital payments regulation 2021

<sup>7</sup> CMSPI, Submission to RBA regarding digital payments regulation 2021

believe that this should act as a template to a similar provision being instituted in Australia. The drastic growth in mobile payments, particularly since COVID, requires urgent attention and businesses cannot afford for the RBA to stand still on this reform.

Finally, the international schemes are implementing complex new rules regarding fees that make it next to impossible for a retailer to access LCR for online payments such as membership and subscription payments. Again, this will see business, particularly smaller operators, faced with no option other than to pass the increased costs onto consumers.

## 5. NRA's recommendations

As highlighted in the above section, the NRA does believe that the RBA's current proposals do not adequately address key areas of concern for small business. Preventing unnecessarily high business costs is an obvious objective at any time, but particularly when the country is coming out of a recession. At the time of writing, lockdowns continue to be used intermittently by numerous state governments and economic uncertainty remains.

The NRA would like to see the RBA undertake the following regulatory actions:

1. Mandate the issuance of Dual Network Debit Cards by all banks to ensure that merchants have choice and that consumers pay lower prices;
2. Make Least Cost Routing the default option for all merchants under all payment channels. There are circumstances where a business may opt against LCR due to other perceived benefits from more expensive channels, but the cheapest option should be the default; and
3. Full transparency in how merchant fees are charged and calculated.

## 6. Conclusion

The NRA believes that strong grounds exist for the RBA to step-in and provide an updated regulatory framework that reflects the modern payments system. The low levels of LCR use by merchants reflects more the existing barriers in place for businesses to obtain it, rather than a preference to be charged substantially higher fees. In almost all environments competition helps to drive down prices by offering choice for those acquiring a service or product and it's unthinkable that an increased use of SNDCs will not result in higher merchant fees. The current regulatory system also needs to keep pace with the fast-evolving area of digital payments and ensure that the same rules apply for mobile and physical card payments. Hence, the NRA concludes that these issues require immediate action from the RBA to ensure our members across Australia are not burdened with costs that are both substantial and avoidable.

## 7. About the submitter

The National Retail Association is the voice of modern retail, representing more than 39,000 stores across Australia. It has been serving businesses in the retail and fast food sectors for

close to 100 years. At our core, we help retail and service sector businesses navigate and comply with an ever-changing, highly competitive environment.

Our members range from small, family owned and operated businesses to leading national brands; and span nearly every retail category including fashion, groceries, department stores, household goods, hardware, fast food, cafes and services. Unlike other associations, the NRA is the only retail industry association to deliver practical legal advice through its wholly owned and incorporated legal practice, NRA Legal. We are also a national RTO (Registered Training Organization), meaning we can deliver a wide range of accredited and non-accredited courses upon request. These range from certificate and diploma qualifications and pre-employment programs right through to customer service training, retail traineeships and mystery shopping services.

A handwritten signature in black ink, appearing to read 'Dominique Lamb', written in a cursive style.

**Dominique Lamb**  
Chief Executive Officer  
Email: [d.lamb@nra.net.au](mailto:d.lamb@nra.net.au)  
Ph: 07 3240 0110

Phone 1800 RETAIL (1800 738 245) Visit [www.nra.net.au](http://www.nra.net.au)  
Email [info@nra.net.au](mailto:info@nra.net.au)  
Level 3, 67 St Pauls Terrace, Spring Hill 4000

