



12 July 2021

Dr Tony Richards
Head of Payments Policy Department
Reserve Bank of Australia

Dear Dr Richards

Review of Retail Payments Regulation Consultation Paper

The Australian Banking Association (**ABA**) welcomes the opportunity to provide feedback to this stage of the retail payments review. The ABA advocates for a strong, competitive and innovative banking industry that delivers excellent and equitable outcomes for customers. We promote and encourage policies that improve banking services for all Australians, through advocacy, research, policy expertise and thought leadership.

ABA supports the RBA taking a considered approach on retail payments issues set out in this consultation. ABA agrees with the RBA maintaining policy focus on least cost routing (**LCR**) / merchant choice routing (**MCR**), and welcomes the opportunity for industry to work with the RBA to apply these concepts to online payments. ABA supports the RBA's forward-looking focus on issues as buy now pay later (**BNPL**) and digital wallets.

A number of policy issues in this consultation relate to the online environment. This part of the payments ecosystem in particular continues to evolve, reflecting Australian consumers' adoption of technology including mobile and in-app payments, closer integration of marketing and payments, and the well documented digital shift as a result of the COVID-19 pandemic. Consumer preferences and market share change quickly. Once entrenched, they can influence merchants' decisions about how to accept payments (and thus affect the cost of payments acceptance) and be a hurdle for payments market reform focused solely on cost.

ABA asks the RBA to account for these market dynamics when identifying regulatory priorities and triggers for regulatory decisions. Policy decisions should be based on data and in-depth evidence of consumer behaviour and preferences; they should consider the impact on incentives to maintain payments infrastructure, cost impact on smaller institutions. This approach can help to identify the areas where regulatory reform can have the greatest benefit for merchants and consumers. ABA notes RBA's ability to take regulatory action will be subject to external factors such as the outcome of the Treasury payments review.

Looking forward, all participants would benefit from a clear roadmap for future reviews referred or anticipated in this consultation.

Dual-network debit cards (**DNDC**) and LCR/MCR

DNDC

ABA supports the RBA's proposal to adopt a pragmatic approach to DNDC and the reasons given.

Card-present LCR/MCR

ABA notes the RBA Governor's remarks in December 2020 that "The major banks now also all offer least-cost routing, with some making it the default offering for small and medium-sized businesses [...] The Board is not convinced that a better outcome would have been achieved through regulation." ABA has also expressed our firm view that LCR/MCR has been implemented for the card-present



environment.¹ This is especially the case when we take into account the percentage of merchants for whom Visa and MasterCard debit is cheaper, or where there is no difference between networks. Further, as the RBA noted, competition in the acquirers market may see more sophisticated LCR functionality being offered.

The RBA also referred to policy work to increase awareness of LCR in the device-present context. To the extent take-up of LCR/MCR is limited merchants' awareness of whether there are potential savings from switching on LCR, banks are open to continue working with the RBA to identify ways to improve the explanation about LCR/MCR for merchants and facilitate merchant choice.

Online LCR

ABA supports competition in online payments that meets the needs of consumers and merchants, including EPAL developing online commerce capability to compete with card schemes, digital wallets and other payments innovations.

Online commerce is crucial to an increasing proportion of Australian merchants. ABA agrees cost of online payments across all payment channels is a policy priority. Reforms would benefit the Australian economy if they can have a material impact on cost of payments acceptance for merchants without detracting from the ease of online commerce for consumers and merchants.

Online LCR would be implemented in an environment where consumers have a high level of visibility and control over choice of payment channels. In line with this trend, technology innovation is enhancing the ability to tailor consumer experience. Payment preferences also differ between consumer types and merchant segments. In this context, ABA questions whether there is sufficient evidence for the proposition that consumers are indifferent about how their debit payments are routed for online payments.

ABA asks the RBA to undertake further work, including consumer testing, to validate consumers views about whether merchants or consumers should decide how to route debit payments, and how transparency should be provided to the consumer. Testing may be necessary for specific consumer or merchant segments (including consumers who may be less familiar with the online environment or less sophisticated users of online payments) and a range of use cases as card-on-file and recurring payments, because these findings will crucially inform the RBA's proposed principles for online LCR.

If this proposition about consumer indifference is validated, ABA agrees that implementation of LCR must not detract from user experience, security or consumer confidence in online commerce – again noting the need to consider consumers who are less familiar with online payments. ABA supports AusPayNet's proposal for the payments industry to work on the implementation of the reform in cooperation with the RBA and subject to a consistent set of principles. This approach would use industry's expertise to ensure a technically sound outcome across online payment value chains and gateways.

More broadly, options for online payments are increasing and commonly include innovations as digital wallets and BNPL, with merchants' decisions about payments acceptance driven by consumer preferences and marketing as much as factors like cost. Online LCR and competition between debit networks targets one part of this broader picture, and other issues identified by the RBA also contribute to cost of payments acceptance for merchants. ABA refers to our introductory comments.

Interchange fees

ABA refers to our introductory comments and notes cost of payments acceptance for merchants can come from areas other than interchange fees. ABA also refers to our submission to the Treasury payments review, which raised the question of how to maintain incentives to invest and upgrade payments infrastructure. Noting BNPL and digital wallets still use payment rails, we ask RBA to ensure

¹ ABA, 'Proposed amalgamation of BPAY, eftpos and NPPA' (18 June 2021), at: https://www.accc.gov.au/system/files/public_registers/documents/Submission%20by%20Australian%20Banking%20Association%20%28ABA%29%20-%2018.06.21%20-%20PR%20-%20M1000020_0.pdf



interchange fees are set at a level that incentivises continued maintenance and investment in infrastructure that is supporting these innovations.

Surcharging

RBA observes that BNPL is increasingly an important part of online payments. ABA reiterates online payments market share is changing quickly, with consumer preferences being shaped and entrenched. These consumer preferences can affect the impact of other reforms such as online LCR on the overall policy objective of reducing the cost of payments acceptance for merchants. As such ABA asks the RBA to keep the issue under review, taking into account the speed of change, the time that may be taken in seeking a voluntary agreement and/or taking further action.

ABA asks the RBA assessment of policy differentiate between different markets or market segments such as retail online payments, and consider whether consumer preference as a driver of merchants' decisions to accept BNPL is relevant to the assessment of degree of competition.

ABA welcomes the RBA continuing to consult with ASIC and relevant regulators on issues of consumer protection. A coherent regulatory regime is beneficial. However, RBA's regulatory decisions should not be constrained by the status of regulatory exemptions under another regime. ABA also notes the recent proposed update to the European Union's consumer credit directive.

Competition in card acquiring

Publishing summary information

Banks are open to work with RBA on the details of the summary information on merchant service fees. It should provide a realistic understanding of which price plans or bundled services merchants may be offered.

Consumer data right (CDR)

ABA supports the CDR's intention of enhancing competition and choice. ABA asks for the opportunity for discussions with the RBA about this proposal, and its prioritisation relative to other existing stages of CDR implementation including action initiation.

Other issues: Digital wallets and mobile payments

ABA refers to our submission to the Parliamentary Joint Committee on Corporations and Financial Services inquiry into mobile payment and digital wallet financial services.² We support the RBA's proposal to keep this area under consideration, based on the outcomes of the Treasury payments review. The timeliness of the review should take into account the rapid take up of online payments and use of digital wallets during the COVID-19 pandemic, as observed by ABA members.

ABA would welcome the opportunity to discuss the matters in this submission in more detail. If you have any questions, please contact me at rhonda.luo@ausbanking.org.au or 0430 724 852.

Yours sincerely

Rhonda Luo
Policy Director

² ABA, submission to Parliamentary Joint Committee on Corporations and Financial Services inquiry into mobile payment and digital wallet financial services (25 May 2021), at: <https://www.aph.gov.au/DocumentStore.ashx?id=f276edd6-c571-4002-b71d-02ff991bddd&subId=707341>