



Master Grocers Australia Ltd.

Trading as

MGA Independent Retailers

and

Timber Merchants Australia

(MGA TMA)

RBA Review of Retail Payments Regulation Consultation Paper

Submission to

Head of Payments Policy Department

Reserve Bank of Australia

9th July 2021

Submission by MGA TMA to the Reserve Bank of Australia in respect of the Review of Retail Payments Regulation

Introduction

1. MGA TMA thanks the Reserve Bank of Australia (RBA) for the opportunity to be consulted and lodge a submission to make comments in regard to the RBA’s Review of Retail Payments Regulation.
2. MGA TMA is once again respectfully making a brief submission and desperate plea on behalf of members around Australia to the Reserve Bank of Australia (RBA) in response to the release of the Issues Paper Reviewing Retail Payments Regulation by the RBA.
3. The purpose of the review is to ascertain stakeholders’ feedback in regard to the effect and impact of interchange fees, merchant service fees, least cost-routing of dual network debit card transactions, ease of payments for consumers and effective reduced costs for MGA TMA’s National Membership base.
4. MGA TMA members continue to experience a deep frustration with the RBA and law makers with not recognising and being heard in regard to their immediate needs for a competitive and affordable merchant payment fee system! Exorbitant merchant payment fees are affecting the viability of our members businesses. This coupled with the risk of losing multi network debit cards is a great concern!
5. MGA TMA submits that LCR (MCR – Merchant Cost Routing) and the availability of Multi network debit cards must be supported by all banks to ensure the card / mobile payment system delivers economical payment choices to consumers and merchants. MGA TMA submits that consumer and merchant choice must be optimized to drive an efficient, cost effective and productive payment system in Australia, mobile or otherwise.
6. The most concerning matter of all, is the palpable disparity and anti-competitive nature of the quantum of merchant payment fees between family and privately owned businesses (our members) and that of the major corporates such Coles, Woolworths, Bunnings and Wesfarmers which are “banks - Acquirers” in their own right and do not have the high merchant payments fees to absorb into their margins that small businesses experience.
7. MGA TMA’s members cannot pass on merchant payment fees to their customers. This is particularly so as family-owned supermarkets, bottle shops and timber and hardware businesses strive to compete on a level playing field with the corporates which they cannot – an affordable and fair merchant payment fee is vital and must be facilitated by the RBA. Dual Network Debit Cards must continue. The Family and privately owned business sector must be protected – their livelihoods depend upon the RBA to accept this remit.

8. Since the commencement in Australia (and in fact globally) of the Covid-19 pandemic in February 2020, “tap and go’ transactions have exploded and become the norm in terms of the consumers making payments for goods and services. This huge and unsustainable exponential increase in debit card usage was caused by the need for consumers to transact Covid safely at the point of sale, coupled with the increase in online payments for goods and services. This has led to MGA TMA members experiencing more than 95% of transactions being made by debit cards – largely the 2 global card providers.
9. MGA TMA would like to submit that it does not have expertise in banking or card and mobile payment systems, however, MGA TMA acknowledges that this area has become a major “cost of doing business” for all its members around Australia.

About MGA

1. Master Grocers Australia & Timber Merchants Australia (MGA TMA) is a National Employer Industry Association representing the owners and operators of Independently owned Grocery and Liquor Supermarkets and timber and hardware businesses in all States and Territories of Australia trading under brand names, such as, Drakes (SA & Qld), Farmer Jacks (WA), Foodland (SA), FoodWorks, Friendly Grocers, IGA, SPAR, Cellarbrations, Bottle-O, IGA Liquor, Local Liquor and Bottlemart. Timber and Hardware businesses trade under brand names such as Mitre 10, Home Timber and Hardware. Bowens Timber and Dahlsens. They range in size from small, to medium and large businesses.
2. Independently owned and operated Supermarkets, liquor stores and timber and hardware businesses play a major role in the retail industry and make a substantial contribution to the communities in which they trade.
3. These family and privately owned businesses comprise a significant subsector of the retail industry in Australia. MGA TMA’s 2700 independently owned supermarkets, liquor stores and timber and hardware business members employ over 120,000 full time, part time and casual staff and transact \$19 billion in retail and wholesale sales (timber). Many MGA TMA members are small family businesses, employing 25 or fewer staff.
4. Although many of the medium sized businesses would not be categorised as such from a legal perspective, they are in fact relatively “small” in comparison to the large corporate supermarkets, liquor stores, timber and hardware businesses in the retail industry and therefore they struggle for survival against the power of the major retail chains. Through their membership of MGA TMA, they are regularly provided with information on any proposed legislative or regulatory changes and how they may be affected by such changes.

Dramatic increase in debit card usage and merchant payment fees – market analysis

1. Market and scenario analysis conducted by eftpos in June 2021, based upon the 8.4 billion domestic debit transactions^[1] in Australia annually, is compelling and MGA submits these findings suggest:
 - a. That the RBA must take immediate action to assist family and privately owned businesses to lessen exorbitant merchant payment fees.
 - b. **Less than 10% of debit transactions in Australia currently have the benefit of LCR (merchant choice routing)** – indicating the reluctance of banks to implement this lower cost merchant payment fee solution and preying upon the inadequate knowledge and resources Small Business owners have to “chase” their banks for this facility. This has also been demonstrated with ‘local’ bank branches claiming to be unaware of LCR (merchant choice routing) and referring customers (MGA TMA members) to head office level.
2. Assuming that 50% per cent of debit volumes are on standard rates, if default merchant choice routing was implemented today, there would be an approximate potential annual **saving to merchants of \$296million**^[2] on interchange fees alone, with additional savings on scheme fees, conservatively estimated of up to \$300 million³. Further savings may also be possible for merchants on non-standard interchange rates.
3. The analysis shows that current proposals being considered by the RBA will remove competition for some areas of the market such as single network debit cards and mobiles where merchants are unable to choose the lowest cost scheme, potentially resulting in higher fees. For example:
 - a. If 50% of the of the market moved to single network debit card and mobile transactions, and interchange for those transactions increased by 2c, this would result in an extra cost to merchants of \$84 million annually, with SMEs paying a significant proportion.
4. These single network cards and mobile transactions would no longer enjoy the potential lower cost benefits enjoyed via routing as seen above.
5. In other markets where competition in debit has been reduced, it has resulted in an increase in scheme fees. For example:
 - a. in the UK - when the domestic scheme was sold to Mastercard and subsequently closed down, the cost to the merchants increased via the international card schemes raising scheme fees^[4], despite the regulator capping interchange fees.

^[1] RBA Payment Statistics. Debit Cards – Original Series – C2.1.xls. May 2020 to April 2021 equating to a year

^[2] Interchange rate of 2 cents per transaction under MCR, rather than an estimated average of 9 cents outside of Strategic Merchant rates from the international Card Schemes

^[3] C3 Average Merchant Fees for Debit, Credit and Charge Cards. Derived delta between eftpos merchant fees and international scheme merchant fees, 2013 and March 2021 data

^[4] Fee Assumption: International Card Scheme fee is assumed to be \$0.005 per transaction and 6.7bps ad valorem on transaction amount. eCommerce/CNP and Mobile/Tokenised transaction is assumed to be 30% of the total transaction mix.

Additional compelling merchant payment fee insights

MGA TMA wishes to further reference an independent submission from a global merchant consultancy company, CMSPI, which has prepared and lodged a submission to the Head of Payments Policy Department Reserve Bank of Australia, Thursday 8th July 2021, giving further reason for the RBA to assist family and privately owned businesses to be able to access Least Cost Routing as well as preserve Dual Network Debit Cards.

CMSPI key findings:

1. Routing

- a. The transactions for which LCR (merchant routing choice) is currently available amount to only an estimated 7.32% of total domestic transaction value in Australia, although many merchants are still not able to access routing on even these transactions.
- b. If merchants could fully access routing on these in-store contactless transactions, our calculations suggest an annual merchant saving opportunity of \$0.18 billion.
- c. If LCR (merchant routing choice) were available on all card transaction types (credit, online, PIN, and digital wallet) and only Dual Network Debit Cards issued, Australian merchants could save an additional \$2.31 billion annually in merchant fees.
 - i. This total figure is \$1.28 billion if only debit transactions are considered.
 - ii. \$0.4 billion of this potential benefit would be driven by routing in ecommerce.
- d. If there were no local debit network and all card transactions charged at Visa/Mastercard average rates, then our estimates suggest annual merchant card costs of \$4.16 billion – amounting to 0.64% of the value of all domestic card transactions in Australia.
 - i. This is in contrast to potential annual merchant fees of \$1.67 billion with full routing availability.

2. Scheme Fees

- a. If Australian scheme fees were to increase to average levels seen in Europe, merchants' annual costs could increase by \$0.33 billion. This is an unacceptable additional fee increase that MGA TMA's members, independently owned and operated Supermarkets, Liquor stores and Timber and Hardware businesses, cannot absorb and cannot pass on to consumers owing to the intense competitive retail pricing environment created by the major corporates.

3. Interchange

- a. Existing interchange regulation is estimated to save Australian merchants \$1.48 billion annually in reduced fees.
- b. CMSPI estimates that 71% of any reduction in card fees is typically passed on to consumers in the form of lower prices.

MGA TMA’s response to the RBA Review of Retail Payments Regulation

1. MGA TMA wishes to submit that reliance upon card-based payments, particularly debit cards, has exploded and driven unsustainable and exponential increased merchant payment fees.
2. Over the last 12 months, family and privately owned supermarkets, liquor stores, timber and hardware businesses have collectively transacted sales revenue as follows:
 - a. \$19 billion in revenue dollars annually \$17.1 billion via card transactions (based upon 95% customer use in store)
 - b. Over 534 million card transactions – resulting in
 - c. \$88 million in annual merchant payment fees
3. At this point there is little relief for reduced merchant payment fees via Least Cost Routing (LCR) systems insight, albeit there is a LCR system developed but not implemented by most of the larger banks.
4. Today the phenomenon of consumers wishing to pay for all their goods and services, no matter how small the price, via “Tap and Go” and other fast payment methods, has exposed our members to exponential increases in merchant payment fee costs amounting to literally many thousands of dollars.
5. It is estimated that less than 5% of supermarket, liquor store and timber and hardware goods are paid for with cash when only 5 years ago this figure was estimated at 35%.
6. In the past, many customers requested “Cash Out” from our members businesses when making payments with their debit cards. “Cash Out” provided the merchant with an opportunity to redeem some of the merchant payment fees charged for card payments.
7. Today consumers rarely request “Cash Out” meaning no defraying of merchant payment fees.
8. With the fast-emerging mobile wallet and digital payments methods such as mobile phone, Apple watch and other payment methods, it is very important that merchant payment fees are kept to a minimum and LCR (merchant choice routing) is made available via these devices to merchants and consumers.

9. MGA TMA members are at a distinct disadvantage when compared with its very powerful competitors, Coles, Woolworths and Bunnings which are in their own right regarded as Acquirers (Banks) and able to defray the cost of transacting card payments.
10. Juxtaposed, MGA TMA members rely upon a fair, well regulated, competitive card payment system to minimise merchant card / mobile payment fees.
11. Whilst MGA TMA has continually advised members to urgently and persistently pursue LCR with their banks, there has been little success of changeover often owing to the lack of knowledge within the ranks of banking staff in ‘local branches’ who deal with MGA TMA members, or they bank staff are simply not proactive with regards to this change of practice, so as not to risk a reduction in their profitability.
12. It appears there is almost a reluctance by banks to engage with businesses to assist with the introduction of LCR.
 - a. **Example** - One of MGA TMA members in WA was delighted to learn that it had success with its discussions with its bank to introduce LCR into its 3 Perth based supermarket businesses.
 - b. The saving per annum, across the 3 stores was estimated at \$90,000**.
 - c. The release of this type of saving meant the store owner was able to invest back into staff and store refurbishments.
 - d. Not long after the negotiations had taken place MGA TMA’s member contacted MGA TMA to advise that the said bank had been back to him to advise that if he continued with LCR (merchant choice routing) it would generate additional banking costs in other areas of his businesses which could cancel out the LCR savings.
 - e. Naturally, our member was confused, frustrated and disappointed. They are still working through the issues with their bank and hoping to arrive at the original savings **.
13. The banking system, particularly when referring to card payments and merchant payment fees is confusing and ambiguous and gives MGA TMA members little confidence when dealing with such an important payment tool and trying to minimise merchant payment fee costs at a time when the costs to do business across the board are rising exponentially.
14. MGA TMA submits that all banks must make LCR (Merchant Choice Routing) readily available as the default option to all its members as soon as possible, as at this point, our members believe they are being unfairly and dishonestly treated by Australia’s big four banks!

15. MGA TMA also submits that all debit cards issued must have dual network debit card functionality to allow both the consumer and merchant the choice as to how they wish their debit card payment transactions to be processed.
16. Competition to help minimise the cost of card and mobile payment transactions is paramount.
17. To facilitate the most cost-effective card / mobile payment system MGA TMA submits that the RBA become more active to regulate or have influence over the following;
 - a. The RBA immediately recommend /stipulate to all banks that they ensure that LCR (merchant choice routing) is made available broadly across all merchant segments, including MGA TMA members with full transparency of their true costs for payment acceptance per payment method – including mobile wallets and digital payment formats.
 - b. The RBA immediately recommend /stipulate that all Network Debit Cards are Dual Network Debit Cards.
 - c. All point-of-sale systems (registers) should require dual network functionality, including eftpos, to MGA TMA members (including mobile and ecommerce) for the lifecycle of a debit product.
 - d. Drive for true transparency in Merchant Fee pricing – across all participants, for all fees.
 - e. Regulate a hierarchy of payments choice, with merchants at the top where consumers do not or cannot actively make their own choice on every payment occasion. This is important as MGA TMA members bear the cost burden of payments and this may be passed onto consumers.
 - f. All payment types, including real time payments, should be open to competition.
 - g. The RBA together with the ACCC should revisit surcharging rules to ensure they do not lead to bundled pricing and potentially higher costs for merchants and their customers.
 - h. Any regulation should be flexible and adaptable as payment technology and methods continue to evolve so that it remains fit for purpose.
 - i. The RBA should act immediately to stop Issuers charging cardholders transaction fees for processing transactions routed to eftpos or any other scheme from dual network debit cards.

Conclusion

1. MGA TMA supports a competitive consumer driven card and mobile payment system. Allowing a payment platform such as eftpos to effectively compete with the major credit card institutions. This will allow more

- choice for consumers and help to significantly reduce interchange costs to merchants and allow consumers to access “cash out” facilities, further assisting to reduce debit card transaction costs.
2. If the RBA is genuine about a strong Australian competitor to the international Visa and Mastercard schemes, they will agree to the one major initiative that will make a real difference to the sustainability and longevity of small businesses and family enterprises, and that is to reduce the cost of merchant payment fees by making “least cost routing” the default option and disallow any bank / financial institution from reducing Dual Network Debit Cards to a Single Network Debit Card.
 3. This will allow the independent sector to preserve already paper-thin margins and compete more effectively against the large Corporates – (Coles, Woolworths and Bunnings), which are already able to minimise their payment transaction and interchange costs, as they are issuers and acquirers in their own right.
 4. MGA TMA welcomes any initiative or regulations that enable a fair and level competitive playing field that will foster a robust and healthy competitive environment for merchants and customers, as our payment methods evolve over time.
 5. MGA TMA would be pleased to discuss any aspect of this submission further.



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