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Head of Payments Policy Department
Reserve Bank of Australia

Via email: pysubmissions@rba.gov.au

To whom it may concern

SUBMISSION TO THE REVIEW OF RETAIL PAYMENTS REGULATION

The Australian Retailers Association (ARA) would like to thank the Reserve Bank of Australia for the opportunity to provide a submission in response to the Consultation Paper published in May 2021.

The ARA is Australia's largest and oldest retail industry group and represents around 7,500 independent, national and international members. The ARA is the trusted voice for Australia's $360 billion retail sector, which employs more than 1.2 million people.

The ARA believes that the payments system should facilitate competition, innovation, efficiency, and merchant choice. As such it is pleasing to see that the RBA is considering regulatory options addressing dual-network debit cards (DNDCs) and least-cost routing (LCR), as well as greater scrutiny on individual components of merchant service fees.

Dual-network debit cards

As the volume and value of debit card transactions continues to increase, using tap-and-go cards and mobile wallets, the ARA is increasingly concerned at new barriers which are erected to prevent merchants accessing the least-cost transaction method. Of particular concern are shifts by issuers from dual-network to single-network debit cards (SNDCs), rendering least-cost routing impossible on these transactions and diminishing competition among debit schemes.

While it is pleasing that the RBA is considering regulation to require continued provision for dual-network debit cards among major banks, we are concerned that the thresholds will leave a large proportion of debit cards issued with one scheme. Of the three options the RBA is considering, the ARA would strongly support the third option, mandating DNDC issuance for major banks and medium-sized issuers, to ensure that competition is facilitated across as close to 100% of the debit card market as is possible. This is critical to ensure the ongoing feasibility of least-cost routing.

Least-cost routing

The slow rollout of least-cost routing remains a persistent hindrance to the efficient operation of the payments system, with a significant loss of public benefit for retailers and consumers, which ultimately pay higher prices to compensate for unnecessarily high transaction costs. Market and scenario analysis conducted by eftpos in June, based on the 8.4 billion domestic debit transactions in Australia annually, suggests less than 10% of debit transactions in Australia currently have the benefit of LCR. This plainly demonstrates that, despite ongoing suasion by the RBA, the rollout of LCR continues to lag at an unacceptably low pace and requires urgent regulatory intervention. Assuming 50% of debit volumes were priced at standard rates, the default implementation of LCR would create potential annual savings to merchants of approximately $296 million on interchange fees alone, with additional savings on scheme fees estimated up to $300 million according to eftpos analysis. CMSPI estimates the potential savings for Australian merchants are approximately $1.3 billion annually, assuming a scenario where all transactions are optimally routed for debit cards alone. This cost is borne disproportionately by small retailers, who pay higher merchant service fees than average.

Most small retailers do not have the technical knowledge to fully compare fees, and require banks to provide a plain English LCR offer to increase awareness and help them understand the benefits to their fees. The ARA implores the RBA to pursue stronger measures to support the provision of LCR as a default opt-out model for all merchants across all payment channels, including tap-and-go, mobile wallets, and online transactions method.

Mobile Wallets

The failure to enable LCR in mobile wallets is also a significant barrier, and of increasing importance as Australians continue to adopt mobile payments. Unfortunately, multi-network debit cards are limited from operating in the same way when uploaded to a digital wallet such as ApplePay, GooglePay, or Samsung Pay, due to technological limitations and settings which prevent the operation of these competitive forces. A further limitation applies to early adopters of digital wallets, which initially only had the choice of an international scheme debit card compatible with the technology. Despite being issued with new MNDCs with new expiry dates from their bank, these early adopters don't need to reupload new version of their debit card which leaves them still today only with a single (international) scheme debit card on their mobile wallet.

Retailers are also impacted by limitations on competition due to restrictions imposed by Apple on its iPhone which leaves developers (including retailers) and consumers no choice but to use Apple's own payment application and systems for contactless transaction using Apple mobile phones and technology. Restrictions on access to near-field communication (NFC) technology on Apple products prevent developers and retailers from using this method of communication, despite NFC being used by most point-of-sale terminals at retail stores.

As vital providers in the payments market, we urge the RBA to reconsider its regulatory approach to payments providers such as Apple and Google to ensure it can fulfil its mandate to promote efficiency and competition in the payments system, and enable the application of least-cost routing to these transactions.

Online

In the online environment, new rules implemented by schemes create another barrier to the implementation of LCR for online transactions. Requirements by schemes that customers are confronted with extra choices in checkout process create additional friction, which are a serious imposition for retailers and create the possibility of abandoned carts and lost revenue. We welcome the development of simple principles for LCR in the online environment that support competition without subjecting retailers and their customers to additional friction and complexity in the checkout process.

Interchange fees

The ARA is pleased to see RBA proposals to continue to place downward pressure on interchange fees, though these could arguably be subject to additional pressure to bring fees in line with caps in the EU.

We believe that, in isolation, different interchange caps for SNDCs and DNDCs will be somewhat beneficial, particularly for small businesses with small transaction values. Ultimately, the differential between interchange caps must be large enough to affect a substantial change in behaviour by issuers. It remains uncertain whether the differential is a sufficient incentive for issuers if they are not mandated to provide MNDCs.

The ARA supports the RBA's preliminary view, and seeks to ensure that any potential benefits are realised by merchants, and that fees will not be levied elsewhere to compensate for reduced interchange revenue.

Scheme fees

Despite the reduction of interchange fees due to scrutiny by regulators, retailers are reporting little change in overall merchant service fees which appear to be bolstered by increases in opaque scheme fees. We estimate that scheme fees account for over one-third of the total merchant service fee, which is a significant proportion of cost and we welcome additional regulatory scrutiny of this area. The ARA strongly supports increased transparency in the payments market, which will facilitate increased competition and ensure downward pressure on costs.

We are hopeful that monitoring mechanisms on scheme fees will be sufficient to ensure merchants benefits from other areas of savings to their fees, though this remains to be seen. We would support a decision to publish aggregated data on scheme fees which would increase transparency and boost competition among payments providers, though very few retailers are likely to use this information given the complexity of the issue.

Buy Now Pay Later

The RBA's preliminary view to allow the no-surcharge rule to continue is a concern for some low-margin ARA members who maintain a must-have BNPL offer. The RBA itself concedes that the average BNPL merchant fee is around 4.25%, compared with an average fee of less than 1 per cent if made with a Mastercard or Visa credit card.

We believe that competition between BNPL players will increased and that downward pressure on costs will be achieved much more quickly if merchants at least have the option to surcharge. Retailers increasingly regard BNPL as a must have offering, with BNPL use very high among online transactions, which continue to increase as a percentage of all retail transactions.

Other issues

The ARA also welcomes the RBA's stance examining the prevalence of tying conduct and its detrimental effect on competition.

We also wish to highlight concern at exceptionally high fees levied on foreign-issued cards which, while representing a very small proportion of retail spending, are nevertheless a significant cost to merchants. Members estimate that these transactions are approximately ten times more expensive than a domestic card transaction. This cost is concentrated among retailers who have been hardest hit by COVID-19, such as those in travel retail or tourist-affected sectors, which have a high proportion of international customers. This is a disproportionate impact, and the ARA would encourage the RBA to consider regulatory intervention to implement a cap on international charges which would provide a benefit to retailers most impacted by the pandemic through their recovery process.

High transaction fees ultimately damage all Australians, with small retailers and consumers suffering the greatest impact of inefficiencies and a lack of competition in the payments system. The ARA will continue to advocate on behalf of the retail sector for necessary regulatory action to address these critical issues.

Thank you again for the opportunity provide a submission in response to the application.

Yours sincerely

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