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Via email to: pysubmissions@rba.gov.au

Reference: Review of Retail Payments Regulation

We refer to the Reserve Bank of Australia's media release issued on 29 November 2019, announcing the Review of Retail Payments Regulation and we thank you for the opportunity to provide you with our comments.

This submission provides our views on five questions posed in the Bank's consultation document.

Q1. Cash

We support the RBA's view that cash will continue to play an important role and therefore there is a role for the Bank to continue to issue coins and banknotes. Cash is the only widely accepted non-electronic payment method and remains an important payment instrument in the case of a systemic outages of electronic payment networks.

By way of example, a notable outage in 2018 that impacted one of the global card schemes operating in Europe, led to 5.2m failed transactions over a 10-hour period. Given the reliance on electronic payments, these types of events, while rare, have a significant impact on consumers ability to transact. Without a cash alternative, the impact is much greater.

Despite the importance of cash, there is a clear downward trend on the use of cash for purchases and this is expected to continue. The ATM statistics reflect this trend with both the number of transactions and value declining year on year over the last 10 years.

At some point, this will bring into question the financial viability of both bank-owned and convenience ATM networks. Given that each bank makes decisions on the location of their ATMs, there is substantial overlap between banks on where ATMs are located, particularly non-branch ATMs. There has been ongoing discussion at an industry level on the establishment of an ATM utility to own and operate bank branded ATMs to overcome the duplication, but to date no agreement has been reached.

As the financial viability of bank owned ATM network comes under increasing threat, we expect the discussions about a utility will recommence. While there is no immediate role for the Bank to assist through regulation, the Bank may need to play a role to make sure the geographical footprint of ATMs gives consumers reasonable access to cash and it promotes the public interest.

Q1. Central Bank Digital Currency

As the decline in cash continues, there will be a growing need to consider an electronic AUD. We understand the Bank is participating in, and observing the progress of international forums, including those convened by the Bank of International Settlements and World Economic Forum.

Given there is a growing interest and more effort by central banks in piloting various CBDC solutions, we expect that the issuance of an eAUD is not a matter of if, but when. On this basis we look forward to the opportunity for industry to collaborate with the Bank in areas where co-operation between the Bank and the commercial banks is necessary to make the roll-out of an eAUD successful.

Q4. Least Cost Routing

We do not support least cost-routing. From a consumer perspective there is no transparency on which network a particular merchant prefers[1] and therefore unintended consequences for the consumer.

Firstly, in the case of a purchase for goods or services to be redeemed on a future date, for example an airline ticket, consumer chargeback protection exists on most regulated products, and the merchant ceases to operate before the service is provided, the consumer will have their money refunded. However, if a merchant chooses to route a transaction via a network that does not have chargeback protection, the consumer loses the protection they expect, without being aware and with limited recourse.

Secondly, it has been argued that irrespective of the debit network selected (for example CHQ, SAV and CR), the majority of transactions are routed to the same bank account. However, this argument ignores those card products which have multiple linked accounts with different fee charging arrangements. There are examples of card products issued by smaller financial institutions where this is the case.

If a merchant implements least cost routing, it is done without regard to any issues impacting issuers or cardholders. As a consequence, the merchant choice can result in a cardholder being charged a fee that would otherwise not apply if the routing was determined by the issuing bank. While we acknowledge that least cost routing seeks to create competition between competing card networks, if the cardholder gains no benefit from reduced costs of goods and services, there is an imbalance that favours the merchant at the expense of the cardholder. Furthermore, it does not take into account the potential breach by banks of the cardholder/account holder terms and conditions of use.

Q5. Dual-Network Debit Cards

We do not support dual-network debit cards for three reasons.

Firstly, for an issuer the cost of issuing dual-network cards is significantly higher than a single network card. Card manufacturing costs are higher, and the cost of complying with two sets of scheme rules places an ongoing burden on issuers for technical compliance as well as product enhancements.

Second, the utility of a dual-network card and the proposition that it brings added cardholder convenience is overemphasized. On average, consumers have between 2 and 3 cards and the decision about which products are chosen are varied. These include interest free days, interest rates, rewards, access to own money rather than credit (debit cards) and chargeback protection. Given consumers propensity to have multiple card products, indicates there is a willingness to choose products on their own merits. Therefore, it would be reasonable to expect that if a consumer's bank provided a different value proposition for scheme debit and eftpos debit, a consumer could choose one or the other or both, depending on their preference.

Thirdly, in terms of competition between schemes, our comments on least-cost routing address this matter.

[1] The network chosen by a merchant may be dynamic and could vary based on transaction type, ticket size and other factors.

Q10. Interchange Benchmarks

There is an argument that in a mature payment system, interchange fees are less relevant as compared to a new payment system where interchange goes some way to assisting in the development of new infrastructure, products and features.

However, given there is continued evolution in card payment systems, with developments including the introduction of EMV cards, contactless, mobile, tokenisation, to name a few, there is never truly a mature – or more appropriately – a static, fully evolved card payment system. Card systems continue to change and therefore the argument about interchange assisting in the development costs, still holds, even though the international schemes - Visa and MasterCard are both roughly half a century old, and it could be argued they are well and truly mature.

On the basis of ongoing innovation, interchange remains relevant, and the proposal by the Productivity Commission in 2018 to ban on interchange fees – whether this be a removal of interchange or the setting of interchange to zero - is in effect setting interchange to an arbitrary rate without appropriate analysis backing up this position.

In the early 2000's, the Bank conducted a cost study which, amongst other things, considered the costs of issuer and acquirer. This led to the setting of interchange at 0.53% - 0.55% for debit and credit cards (down from about 1.0%). After subsequent reviews, the Bank made further changes and set credit interchange to 0.50% and 12c a transaction for debit and more recently a change to debit interchange from 12c to 8c a transaction.

Whether participants in the payments industry agree or not with the RBA's conclusions, there was sufficient examination - based on evidence - of the costs and other factors, to make their conclusions on interchange sound, or at least, based on thorough investigation.

We support a Bank initiated examination of interchange to establish whether any factors have changed since the last review. However, we would not support a review outcome driven by an end point in mind, for example, a reduction of credit interchange to 0.3% and debit to 0.20 as has occurred in other markets.

Q 15. Surcharging

We support a change to the regulatory framework for that provides for merchants to charge a surcharge based on the reasonable cost of acceptance. In particular, we support the removal of surcharging on all three debit card systems.

Interchange reforms have led to lower costs for merchants to accept card payments, and in the case of debit cards the reduction in acceptance costs continue to reduce. In addition to this, there has been greater competition in the acquiring market with both new eCommerce and point of sale solutions. These together have led to cost savings to merchants.

At current levels, it can be argued that the cost of accepting debit cards passes the merchant indifference test and therefore there is no need for merchants to charge a surcharge fee. Allowing a surcharge sends a distorted price signal given that debit cards attract the lowest rates of Merchant Service Fees and some merchants charge a flat interchange fee irrespective of the card type.

To implement a change for surcharging on debit cards, we see two equally viable solutions. Firstly, the standard on surcharging could be amended to explicitly reflect the no-surcharge on debit products. Secondly,

the standard could be amended to remove references to surcharging for debit, and allow the card schemes to implement a no surcharge rule.

In terms of Surcharging on credit cards, both four party and three-party schemes, given the higher acceptance cost, we believe there is a case to leave the regulatory framework unchanged.

In conclusion, thank you for the opportunity to comment on the Bank's Issue's Paper and we look forward to discussing our submission.

Yours sincerely

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Managing Director