

**29th January 2020**

**Head of Payments Policy Department**

**Reserve Bank of Australia**

**GPO Box 3947**

**Sydney NSW 2001**

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**AACS submission: Review of Retail Payments Regulation**

To whom it may concern,

On behalf of members of the Australasian Association of Convenience Stores (AACS), the peak body for the convenience industry in Australia, we make the following submission to the Reserve Bank of Australia as part of its Review of Retail Payments Regulation, and in response to the November 2019 Issues Paper.

The primary rationale for our submission to the Review is simple: in this challenging economic environment, we are focused on minimising the costs of doing business for convenience stores and small businesses everywhere.

This includes minimising merchant charges associated with tap-and-go payments.

With tap-and-go payments becoming the norm, the cost of doing business for small retailers has previously been impacted by the lack of choice to route these payments using domestic systems like eftpos, so as to not incur higher international charges.

The introduction of least cost routing for debit cards has delivered significant benefits in terms of competition, and therefore cost savings to merchants and their customers, and we therefore believe this functionality should be applied to credit cards too.

Being able to route all tap-and-go transactions through low cost domestic networks has the potential to save convenience stores thousands each year. More profitable stores mean greater employment opportunities, especially at the local community level.

For this reason, in its Review, the AACS urges the Reserve Bank to regulate to allow all payments types, including real time payments, to be open to competition.

The AACS wants to ensure that any move by banks to make least cost routing available to retailers includes all retailers, small and large. We are moving towards a cashless economy and it’s vital that transaction fees are kept as low as possible.

The AACS welcomes the opportunity to remain involved in this review, so please don’t hesitate to contact me should you require anything further.

Thank you for your consideration of our submission.

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**About the AACS**

Established in 1990, the Australasian Association of Convenience Stores (AACS) is the peak body for the convenience industry in Australia.

Nationally, our industry employs over 40,000 people in over 6,500 stores. The majority of these stores operate as family run businesses, often under licence or franchise agreement, or independent ownership. They regularly employ family members and people from the local communities in which they operate.

The AACS represents the interests of these small businesses; their owners, staff, suppliers and customers.

The convenience industry in Australia was valued at approximately $8.6 billion in merchandise sales in 2018 excluding petrol, according to companies contributing to the *2018 AACS Annual State of the Industry Report*. This report contains the most comprehensive information available on the convenience industry in Australia and we would be happy to provide a copy.

As an Association we enjoy strong ties with our international counterparts including the convenience stores associations in the US, Canada, the UK and New Zealand. We also visit similar stores in South East Asia to keep abreast of changing and emerging trends.

**Opportunities for regulation**

The AACS believes there is a need for the RBA to designate all electronic retail or consumer payments and regulate all participants. This belief is underpinned by our desire to enhance competition through the availability of choice.

We envisage a hierarchy of payments choice, with merchants positioned at the top in instances in which consumers do not or cannot actively make their own choice on every transaction.

There is a need for clear, prescriptive, publicly available, enforceable regulation which applies to all electronic retail and consumer payments that is form factor and channel agnostic.

It should be technology, product and service neutral, so that it remains fit for purpose as payments evolve.

This regulation should be enforceable, specifically against the entity acting to breach the regulation, benefit from the breach, and undermine the purpose of the regulation.

Finally, regulation should be closely linked to transparency in order to promote accountability.

**Transparency is critical**

The AACS has noted above the opportunities for regulation in this space that we believe would best promote competition and minimise cost pressure on small businesses like convenience stores and their customers.

Critical to any new regulatory landscape in this space will be transparency in pricing for all participants, for all fees including but not limited to interchange fees.

With all parties accountable, with pricing structures clearly published, merchants and consumers can be truly empowered to make informed choices.

To this end, we urge the RBA to regulate to ensure that least cost routing is made widely available to all merchants, small and large, with full transparency to merchants of the true costs they incur for payment acceptance per payment method.

**Response to select questions in the Issues Paper**

In this section the AACS offers responses and feedback on select questions in the Issues Paper, specifically as they relate to issues and areas not covered previously in this submission.

**What major recent or prospective developments in the broader payments industry are particularly relevant to this review? More specifically, are there any gaps in functionality available to end users or any shortcomings in industry governance or operating arrangements that require regulation or coordinated industry action?**

The AACS believes it would be advantageous for the RBA to regulate that the processing of all debit transactions initiated in Australia must be done through a designated Australian-based payments system, supported by redundancy measures involving approved national infrastructure for payments to continue to be processed in the event of outages.

Further, as a matter of urgency, the RBA should abandon its approach to three yearly payments regulation reviews and instead adopt a more efficient process that more appropriately aligns with industry innovations and the pace in growth of technology.

**Are there barriers to innovation and/or competition that may affect the costs of or provision of electronic payments and should be addressed in this review?**

Stipulating thatall debit transactions initiated in Australia must be processed through a designated Australian-based payments system would deliver better outcomes and regulatory control around competition, security, resilience and innovation.

**Is there a case for further policy action to enhance competition in the provision of acquiring services to merchants? If so, what form could this action take?**

We urge the RBA to act immediately to stop card issuers charging cardholders transaction fees for processing transactions routed to eftpos or any other scheme from dual network debit cards.

In the interests of competition, we believe there is scope for the RBA to crack down on exclusive contracts between banks and schemes, especially those of extended duration, as well as first mover advantage provisions are anti-competitive.

Additionally, we believe there should be a prohibition on scheme rules which require participant to prioritise one scheme over another. Card issuers should be required to have a mix of cards with different scheme priorities across their base.

**Should regulation of interchange be extended to inter-regional interchange fees (i.e. interchange fees applying to transactions in Australia using foreign-issued cards)? What is the typical cost of transactions on foreign-issued cards, and how much of this is attributable to interchange fees?**

We believe the RBA should apply the same regulatory requirements to interchange on transactions initiated by internationally issued cards as applies to domestic cards for transactions made in Australia.

It is unreasonable and unfair for merchants to bear the burden of higher fees on domestic transactions.

**Is the surcharging framework working well? Are there any changes that should be considered?**

The AACS urges the RBA and ACCC to revisit surcharging rules to ensure they do not lead to ‘bundled’ pricing structures which could potentially result in higher costs for merchants, and as a consequence, their customers.

We also believe merchants should have the regulated capacity to surcharge to recoup the cost of acceptance on all payment types, in order to prevent the more expensive payment methods being subsidised by lower cost payment methods such as eftpos or cash.

**For further information contact:**

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