December 12th, 2024

Head of Payments Policy Department
Reserve Bank of Australia
GPO Box 3947
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Via email: pysubmissions@rba.gov.au

RE: Australian Lottery and Newsagents Association (ALNA) Submission to RBA Review of Merchant Card Payment Costs and Surcharging

Executive Summary

The Australian Lottery and Newsagents Association (ALNA) welcomes the opportunity to provide input to the Reserve Bank of Australia's (RBA) review of merchant card payment costs and surcharging. Our submission represents the interests of thousands of small business owners across Australia who operate newsagencies and lottery outlets.

Our members have broadly embraced technological innovations, particularly Least Cost Routing (LCR) and differentiated pricing between debit and credit cards, to manage their costs. Whilst the majority do not surcharge, preferring to maintain straightforward, transparent pricing for their customers, they continue to face disproportionately high payment costs compared with large retailers and similar retailers in some overseas jurisdictions.

The current payments landscape presents significant challenges for small businesses, with several critical issues requiring regulatory intervention:

1. Disproportionate cost burden on small merchants
2. Market failure and dysfunction in certain sectors.
3. Lack of transparency in fee structures
4. Limited competitive pressure on payment costs
5. Ineffective enforcement of existing regulations

For small businesses, **"debit is the new cash"**, providing a secure, accessible, and cost-effective way for consumers to transact. However, without regulatory intervention,

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excessive fees, cross-subsidisation with premium cards, and insufficient adoption of LCR risk undermining its affordability and utility.

About ALNA

The Australian Lottery and Newsagents Association (ALNA) is the peak national industry body representing lottery agents, retail newsagents, and distribution newsagents across Australia. Our members are part of an industry comprised of over 4,000 small businesses that form an essential part of the retail landscape in almost every rural town, regional centre, and metropolitan shopping centre throughout the country.

These family-run businesses serve as trusted retailers, with approximately 2.5 million Australians visiting their local agency daily. Our members play a vital role in their communities, providing essential services and maintaining local economic activity in areas where larger retailers may not operate.

Background and Engagement

Payment costs are a top-tier issue for our members, and ALNA has a long history of constructive engagement on payments and other regulatory reform processes with the RBA. ALNA has been a steadfast advocate for reforms like Least Cost Routing that significantly benefit our members.

This engagement has consistently demonstrated our commitment to balanced regulatory outcomes that protect consumer interests while maintaining viable small business operations. Our appearances before parliamentary committees on payment issues and contributions to policy development have helped shape practical, workable solutions to complex regulatory challenges. In recent times we have actively participated with other industry associations and valuable industry stakeholders in the Independent Payments Forum (IPF) to further our concerns.

Part A: Context and Market Analysis

Market Context

Small businesses, particularly ALNA members, process high volumes of low-value transactions, such as lottery sales. These low-margin operations are disproportionately affected by payment costs. For example, a newsagent may process over 1,000 transactions daily with an average value of $15.20, resulting in disproportionate payment costs compared to larger retailers with higher transaction values.

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> ***“These fees are significant (about 7% of profit for high volume, low margin businesses such as lotto agencies) and they will only increase as access to cash continues to decline with banks closing branches.”*** *ALNA Member*

As many of our member businesses are part of a large franchise system, they are already subject to fees based on turnover, contributing to margin pressures. For example, for our members businesses, the percentage of lottery sales commissions they receive as part of their overall sales volume can range between approximately 20% to 100% and these sales are subject to a charge in respect of the sale of these lottery products of around 2% (*before compliance performance adjustments, which can reduce that to between 1-2%*).

For lottery ticket sales, where payment costs are related to the gross ticket price, and the agent only receives net 10% - 11.3% commission, 10% or more of the total available commission can be lost to merchant payment costs.

Lottery ticket prices are approved and fixed by state regulators, and magazine/newspaper prices are fixed by publishers, so without the availability of surcharges, and a countervailing significant reduction in payment costs, the retailer cannot increase prices to recover costs and won't be able to recover the payment costs from the customer.

> ***“Lottery ticket prices are fixed and so without surcharges the retailer won't be able to recover the bank costs from the customer.”*** *ALNA Member*

Overlaying disproportionately high payment costs on these businesses exacerbates financial pressures and is unsustainable.

Economic pressures, including the cost-of-living crisis, are further complicating consumer payment behaviours. While surcharging has historically driven consumers to adopt lower-cost debit cards, financial strain is increasing reliance on credit cards to manage bill payments. Regulatory responses must consider these dynamics to ensure balanced outcomes for merchants and consumers alike.

Current Market Dynamics - Small Business Impact

The issues paper reports average merchant service fees of 1.5% to 2.0% for small businesses, whilst large retailers negotiate rates as low as 0.2% or lower. When a newsagent may process over 1,000 transactions daily with an average value of $15.20, this disparity cannot be justified by transaction volumes alone and represents a significant market failure that requires regulatory intervention.

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How can these pricing models be justified when the originating cost of the transactions is likely the same and debit transactions have fixed processing costs? These outcomes suggest that small businesses are effectively subsidising the larger merchants discounted rates which is not fair.

Market Failure and Dysfunction

We have identified several concerning trends contributing to persistent market dysfunction and cost disparities:

1. **Dysfunction across many small business segments**
    - Widespread adoption of surcharging at maximum allowable rates.
    - Limited incentive to negotiate better rates due to industry-wide surcharging practices of passing to consumer.
    - Limited competitive offers from financial institutions where models appear to be targeting maximum margin, and costs are often passed to consumers by design.
    - Inclusion of non-payment costs (e.g., frequent flyer points) in surcharge calculations. For example: https://livepayments.com/pricing/in-store

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    - Consumer inability to avoid surcharges due to limited payment alternatives.

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2. **Payment Cost Inflation**
    - Complex scheme fee structures obscuring true costs for merchants.
    - Percentage-based pricing for debit transactions despite fixed processing costs.
    - Bundling of non-payment services into merchant service fees and ultimately surcharges.
    - Strategic interchange rates disproportionately favouring large merchants, further disadvantaging small businesses.
3. **Competitive Barriers**
    - Limited transparency and regulated disclosure in pricing.
    - Complex fee structures preventing effective comparisons.
    - Difficulty in switching providers due to lack of clarity and perceived risks.
    - Limited bargaining power for small merchants compared with larger retailers.

These factors create a market environment where small businesses face significant disadvantages, exacerbating financial pressures and reducing their ability to compete effectively.

Part B: Detailed Responses to Consultation Questions

Interchange Fees (Q1-Q3)

Q1: Is there a case for lowering the level of interchange benchmarks or caps? Should the difference between the interchange fees paid by big and small businesses be limited in some way?

The current disparity in interchange fees between large and small merchants creates significant market distortion. Small businesses frequently pay interchange rates up to 800%, or 3 to 8 times higher than large retailers, despite minimal differences in processing costs. This disparity particularly affects newsagents and lottery outlets, who process high volumes of low-value transactions.

Key Recommendations:

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1. **Mandate zero interchange fees on debit transactions under $50 and 1 cent over $50**, reflecting their role as the "new cash" and supporting small merchants.
2. **Lower debit card interchange cap from 8 cents to 1 cent or lower per transaction**.
3. **Reduce the interchange cap for credit cards from 0.80% to $0.2c** on standard domestic credit cards, $0.05c for premium credit cards at POS, and $0.03c for standard credit cards and $0.10c in online.
4. **Implement a maximum differential of 0.10% between strategic and standard rates** to address inequities favouring large merchants.
5. **Prohibit percentage-based interchange fees for debit transactions** and mandate fixed-rate ceilings.

Cost-of-living pressures are driving increased credit card usage as consumers defer payments. This trend highlights the need to cap credit interchange rates and provide tools to help merchants manage these evolving cost structures.

Q2: Should interchange regulation be extended to foreign card transactions in Australia?

Foreign card transactions currently impose excessive costs on Australian merchants, with rates up to 2.4% compared to domestic rates below 0.8%. This disparity cannot be justified by processing costs and creates particular challenges for tourist (visitor economy) focused small businesses which includes many of our members.

Key Recommendations:

1. **Extend interchange regulation to foreign-issued cards**, aligning caps with domestic transaction rates.
2. **Implement separate caps for in-person versus online transactions** to reflect different risk profiles.
3. **Require clear disclosure of foreign transaction costs** to merchants.
4. **Establish a monitoring framework for cross-border fees** to ensure compliance.

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Q3: Is there a case for reducing the complexity, and/or enhancing the transparency, of interchange fees?

The current complexity of interchange schedules creates significant operational challenges for small businesses and reduces market efficiency. Many of our members report difficulty understanding and comparing fee structures, limiting their ability to negotiate effectively.

Key Recommendations:

1. **Limit interchange categories to a maximum of 10 per scheme** across debit and credit to simplify fee structures.
2. **Mandate a standardised fee disclosure format** for all PSPs and schemes.
3. **Require publication of average interchange rates by merchant category**.
4. **Implement quarterly reporting requirements** for interchange fees.
5. **Create a public database of interchange rates** to enhance transparency.

Scheme Fees (Q4-Q6)

Q4: Is there a case for further transparency of scheme fees to promote efficiency and competition?

The opacity of scheme fees significantly hampers competition and enables fee inflation. Small businesses lack visibility into actual processing costs versus scheme margins, preventing effective market operation.

Key Recommendations:

1. **Mandate quarterly publication of scheme fee data**, including fee structures and revenues.
2. **Require disclosure of scheme revenue and margins** to merchants.
3. **Establish a standardised reporting format** for scheme fees.
4. **Create a public comparison database** for scheme fees.
5. **Implement regular regulatory reviews** of scheme fees.

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Q5: Is there a case for regulatory action to reduce the complexity or growth of scheme fees?

Scheme fees have grown increasingly complex with limited justification. The proliferation of fee categories appears designed to obscure rather than clarify costs.

Key Recommendations:

1. **Cap Debit scheme fees** at $0.01 for transactions less than $50 and $0.15c for transactions more than $50 to preserve affordability.
2. **Cap Credit scheme fees** at $0.02 for transactions less than $50 and $0.20c for transactions more than $50 to preserve affordability.
3. **Limit the number of fee categories per scheme** to simplify fee structures.
4. **Require regulatory approval for new fees** introduced by schemes.
5. **Prohibit bundling of non-payment services** into merchant service fees.
6. **Implement annual fee growth limits** to prevent unchecked increases.

Q6: What other regulatory action should the RBA consider to increase competitive pressure on scheme fees?

Current market structures limit competitive pressure on scheme fees, particularly in the credit card market.

Key Recommendations:

1. **Mandate clear separation of scheme and processing fees** to enhance transparency.
2. **Require publication of scheme fee revenue** and detailed fee schedules.
3. **Implement comparison tools for merchants** to evaluate scheme fees.
4. **Enhance powers for ACCC oversight** of scheme fee practices.
5. **Create a formal review mechanism** for ongoing assessment.

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Least Cost Routing (LCR) (Q7)

Q7: How do stakeholders assess the functioning and effectiveness to date of LCR for in-person transactions?

Our members who have implemented LCR report cost savings of at least 10–20%. However, implementation remains inconsistent, and many small businesses face technical or knowledge barriers.

Key Recommendations:

1. **Mandate default LCR implementation for all merchants**, including dynamic routing capabilities at POS and Online by 1 January 2026.
2. **Require PSPs to provide LCR as the default setting**, ensuring debit transactions route through the lowest-cost network.
3. **Implement regular reporting requirements** to ensure accountability among PSPs.
4. **Create a standardised implementation framework** for LCR that passes on benefits to merchants.
5. **Specific Opt-Out rather than Opt-In** provision for merchants
6. **Extension to domestic Credit** considerations

Without universal LCR, small businesses face unnecessary costs that undermine the affordability of debit transactions. Mandating LCR will ensure debit fulfils its potential as the "new cash," providing a low-cost payment option for both merchants and consumers.

Transparency of Merchant Service Fees (Q8–Q11)

Q8–Q11: Is there a case for greater transparency of fees, wholesale costs, and market shares?

Current pricing opacity and limited disclosure significantly hamper market efficiency. Small businesses lack tools to effectively understand and compare offers or negotiate rates. Our member businesses have difficulty sourcing clear and standardised information and an understanding of the schemes for the purpose of conducting competitive analysis of the different offers which is a huge barrier in them changing providers.

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ALNA believes the RBA needs to develop an online market comparison tool similar to those provided to compare other complex product and service offers such as health insurance, consumer loans, energy and insurance, etc.

There are other sectors with more appropriate disclosure requirements. For example, in franchising the franchisor is required to provide a standard form of Disclosure Document. The purpose of the disclosure document is to help potential franchisees make a reasonably informed decision about the franchise. The disclosure document must give useful and reliable information about the franchise. It also gives franchisees current information about the franchise that they need for the running of their business.

Every year franchisors must update the disclosure document within 4 months after the franchisor's financial year has ended so that the document to reflects changes that occurred in the previous 12 months. Franchisors must also update their disclosure document at other times to ensure it does not contain information that will, or is likely to, mislead or deceive. This means that if a significant change in the franchise system occurs, the franchisor must consider if their disclosure document needs to be updated to reflect this change.

Franchisors are also required to register their disclosure document. All existing franchisors must be on the register. The Australian Department of the Treasury administer the Register to franchise owners. Ultimately, the Register aims to increase transparency in the franchising sector.

We believe a similar model should be adopted for the Merchant Card Payment Costs and Surcharging sector. These disclosure documents should be provided in a standard and prescribed format and contain all the areas of disclosure discussed in this submission and be presented in a user friendly and understandable format.

Key Recommendations:

1. **Develop an independent online comparison tool** for PSP pricing, similar to utility comparison platforms.
2. **Require PSPs to disclose fees in a standardised format**, akin to franchising disclosure requirements.

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3. **Publish granular data on wholesale costs, margins, and transaction volumes** for all merchant categories.
4. **Mandate the provision of standardised Disclosure Documents and a Disclosure Register** to enhance transparency.
5. **Establish regular market share reporting** to monitor competition.
6. **PSPs should be mandatorily required to offer interchange plus plus pricing plans** as an option to customers.

Merchants often hesitate to switch PSPs due to perceived complexity and apathy. An independent grading system for PSPs, based on transparent criteria, would motivate merchants to evaluate and adopt more competitive services.

Surcharging Framework (Q12–Q13)

Q12–Q13: Is there a case for revising the RBA's surcharging framework?

The current framework has enabled excessive surcharging in certain sectors while failing to provide adequate consumer protection.

Key Recommendations:

1. **Banning surcharging without addressing fee imbalances would result in increased prices for consumers and potentially lead to job losses, particularly in low-margin industries that cannot build costs into prices**. Fair surcharging practices must reflect the real costs borne by small businesses not inflated profits of financial institutions.

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2. **Exclude non-payment costs**, such as frequent flyer points, from surcharge calculations. For example:

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3. **Require clear disclosure of surcharges at the point of sale**.
4. **Enhance enforcement mechanisms** to ensure compliance.

Broader Implications (Q14–Q15)

Q14–Q15: Are there any other regulatory actions or broader implications to consider?

The payments ecosystem requires holistic reform to address market failures and promote innovation and competition. Since contactless payments arrived, arguably there has been very little payments innovation other than new marketing innovations.

There is an obvious failure of innovation in our sector where approximately 60% of lottery sales goes back to the player (several $billion dollars annually), mostly in the form of small cash prizes paid over the counter. **With cash drying up, debit must step up as the 'new cash', and we urgently require innovations that allow small prize payments direct to players debit cards at the terminal**. There needs to be an industry standard model for this to occur and to ensure that digital wallet monopolies are not created and that a competitive marketplace for innovative solutions is encouraged. There are other sectors where this technology could be useful too.

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Key Recommendations:

1. **Develop a payments innovation, regulation and standards strategy** that encourages market solutions to problems like ours.
2. **Develop comprehensive mobile wallet regulation** to address emerging payment technologies.
3. **Ensure consistent regulation across payment types**, including buy-now-pay-later services.
4. **Implement a regular market review mechanism** to adapt to evolving conditions.
5. **Create small business support programmes** to aid in compliance and adaptation.
6. **Allow collective bargaining for SMEs on fees**, providing leverage to negotiate better rates.

Part C: Implementation and Conclusions

Implementation Framework

Staged Implementation

- **Immediate Actions**
  - **Mandate LCR implementation** across all eligible debit and standard credit transactions.
  - **Implement debit fee caps and reforms**, including zero interchange on transactions under $50.
  - **Enhance transparency requirements** for scheme fees and PSP margins.
  - **Strengthen the surcharging framework**, allowing fair cost recovery.
- **Medium-Term Reforms**
  - **Introduce comprehensive regulation of scheme fees**.
  - **Standardise fee disclosure requirements** to empower small businesses.
  - **Strengthen enforcement mechanisms** to ensure compliance.

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- Address structural issues in the payments market to promote competition.
  - **Address structural issues** in the payments market to promote competition.
  - **Address strategic payments innovation regulation and standards gaps** to encourage market solutions to small business payments problems.
- **Long-Term Objectives**
  - **Establish a competitive payments services market**.
  - **Create efficient pricing mechanisms** that reflect true costs.
  - **Ensure fair cost distribution** across all merchant sizes.
  - **Enhance consumer choice** and transparency in payment methods.

Compliance Framework

- **Clear enforcement responsibilities** with defined regulatory oversight.
- **Regular reporting and disclosure requirements** for PSPs and schemes.
- **Meaningful penalties for non-compliance** to ensure adherence.
- **Active monitoring programmes** to assess market dynamics.

Conclusion

The current payments system imposes disproportionate costs on small businesses and their customers. While the RBA's previous reforms have delivered some improvements, significant market failures persist. The challenges identified require decisive and immediate regulatory intervention.

We believe these reforms will create a more competitive, efficient, and equitable payments system, benefiting both merchants and consumers. These measures are practical, balanced, and achievable, delivering immediate benefits to small businesses while fostering long-term market efficiency.

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Future Considerations

As the payments landscape continues to evolve, we recommend:

1. **Regular review of the regulatory framework** to address emerging challenges.
2. **Ongoing monitoring of market developments** and industry compliance.
3. **A flexible approach to emerging technologies** and payment innovations.
4. **Continued focus on the impacts of reforms on small businesses**.

We appreciate the opportunity to contribute to this important review and welcome further discussions on these proposals.

Yours sincerely,

Ben Kearney
Chief Executive Officer
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